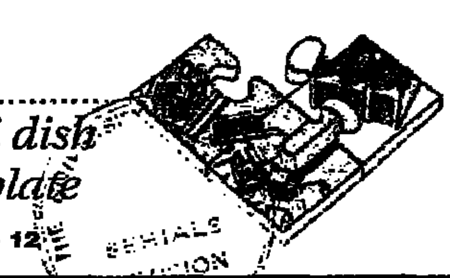
FINANCIAL TIMES

Forex schemes
The cold callers target Europe
Page 15

France and Germany
The pessimism is overdone
Martin Wolf, Page 14

Genetics
From Petri dish to dinner plate
Technology, Page 12



Today's surveys
Logistics
Spanish Banking
Separate sections

World Business Newspaper http://www.FT.com TUESDAY OCTOBER 15 1996

Brussels to leave open loophole in competition rules

Retailers and distributors of petrol, beer, luxury goods and perfumes will be allowed to continue to exploit a loophole in European Union competition rules because of delays over rewriting policy. The European Commission decided to extend by two years regulations that allow certain exclusive agreements, such as those between breweries and pubs, to be spared scrutiny. Page 16

Ex-Barings manager claims £500,000 Mary Walz (left) one of the senior managers at *Barings* in charge of rogue trader Nick Leeson, laid claim to a £500,000 ($780,000.) bonus she was promised hours before the discovery of hidden losses of £830m last year. Ms Walz, who was sacked for her part in the collapse, told an industrial tribunal in London that she had been described as "a star" while being told of her bonus by Barings deputy chairman Andrew Tuckey. *Barings is now owned by Dutch bank* ING Group. Page 10

Chrysler set to equal record: Chrysler, smallest of the big three US vehicle builders, reported strong sales during the summer, setting it on track this year to equal the record $3.6bn of after-tax earnings it recorded in 1994. Page 17

UK seeks to end aluminium tariff: British aluminium producers broke ranks with other European producers and called for an end to the 6 per cent tariff charged on about 60 per cent of the aluminium imported by the European Union. Page 5

Soyabean segregation rejected: Unilever and Nestlé, two of Europe's largest food manufacturers, rejected segregation of genetically modified US soyabeans as impractical. Page 7

BA pledges to save Air Liberté jobs: British Airways pledged to save the jobs of 1,250 staff at Air Liberté after tabling a £3m takeover bid to administrators of the French carrier. Page 17; Lex, Page 16

Germany maintains recovery: Germany maintained its economic recovery in the third quarter, the Bonn economics ministry reported. It predicted that gross domestic product would show stronger year-on-year growth than in the second quarter. Page 3

French seek UK rail franchises: Connex Rail, UK transport subsidiary of French water group Compagnie Générale des Eaux, took over the South Eastern rail franchise covering Kent and Sussex and said it hoped to acquire two more. Page 10

Traub shares suspended: The future of Traub, one of Germany's leading machine tool makers, was in doubt after its shares were suspended on the request of Deutsche Bank, one of its biggest creditors. Page 17

Japanese group plans new airline: Japan's largest discount travel agency, H.I.S., plans to launch the country's first new internal airline in 45 years. Page 16; Observer, Page 15

Pensions advisers fined: The UK Securities and Investments Board fined four of the country's leading independent financial advisers a total of £405,000 ($632,000) in the first significant disciplinary action to stem from the probe into personal pensions mis-selling. Page 10

Taxes needed to ease Russian poverty: A quarter of Russians live below the poverty line but there is little the government can do to ease their plight unless companies start paying their taxes, social services minister Victor Ilyushin said. Page 3

Australian banks agree to merge: New South Wales-based bank St George launched an agreed A$2.65bn (US$2.1bn) bid for Advance Bank, its Sydney-based rival. Page 17

World Service changes approved: UK foreign secretary Malcolm Rifkind approved plans by the BBC for restructuring its World Service after the corporation offered concessions designed to protect *the* "special character" of World Service broadcasts. Page 10

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STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	6,014.47	(+45.09)
NASDAQ Composite	1,254.02	(+5.75)
Europe and Far East		
CAC40	2,143.62	(-3.5)
DAX	2,693.88	(+7.85)
FTSE 100	4,038.7	(+10.6)
Nikkei	21,029.25	(+61.09)

US RATES

Federal Funds	(closed)
3-mth Treas Bills: Yld	(closed)
Long Bond	(closed)
Yield	(closed)

OTHER RATES

UK: 3-mo Interbank	5 3/32%	(5 1/16%)
UK: 10 yr Gilt	100 7/32	(100 3/16)
France: 10 yr OAT	103.73	(103.96)
Germany: 10 yr Bund	101.48	(101.52)
Japan: 10 yr JGB	101.4677	(101.687)

NORTH SEA OIL (Argus)

Brent Dated	$24.75	(23.845)

GOLD

New York: Comex		
(Dec)	$383.8	(383.4)
London:		
close	$381.45	(381.05)

DOLLAR

New York: lunchtime		
£	1.58145	
DM	1.52865	
FFr	5.1755	
SFr	1.2528	
Y	111.63	
London:		
£	1.5795	(1.5753)
DM	1.5293	(1.5315)
FFr	5.1765	(5.1824)
SFr	1.253	(1.255)
Y	111.63	(111.635)
Tokyo close:	Y 111.6	

STERLING

DM	2.4155	(2.4126)

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lts 18.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.500	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr260	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kč70	India	Rs75	Nigeria	Naira125	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£80.00
Finland	FM18.00	Jordan	JD1.75	Poland	Zl 6.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils.750	Portugal (m'land)	Esc265	Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500			UAE	Dh13.00

Wide-ranging privatisation plan intended to raise $8bn in next 12 months

Spain to shake up public sector

By Tom Burns in Madrid

Spain is to launch a privatisation drive, restructure some loss-making state-owned companies and close others in a bid to stem the public-sector drain on state revenues ahead of the planned launch of the European single currency in 1999.

The plan calls for more than Pta1,000bn ($7.8bn) to be raised in the next 12 months in privatisation receipts – well over *twice the amount realised in a* single year by past privatisations.

The main feature in the plan will be the sale of part of the government's controlling stake in Endesa, the dominant electrical utility.

The government's 63 per cent stake in Endesa will be sold over the next three years in successive global offerings. These are expected to raise some $9.3bn at current market prices.

The privatisation programme will begin before the end of 1996 with a low-key sale of the state's remaining 3.8 per cent stake in Gas Natural, the LNG importer and distributor. It will pick up speed at the beginning of next year with the full privatisation of Telefónica, the telecoms operator.

Global co-ordinators for the sale of the state's 21 per cent stake in Telefónica, which is valued at around Pta469.1bn, will be appointed before the end of this month. The disposal is scheduled to take place in late January or early February.

The ministry plan envisages that the state's remaining 10 per cent of Repsol, the oil, gas and chemicals group, will be sold in the first half of next year in an offering that would raise Pta121.7bn at current market prices.

The industry ministry plans to sell off its stake in Endesa in tranches of about 20 per cent at 12-month intervals, starting in the second half of the year.

This strategy is in line with recent analysis by domestic brokers suggesting that the markets can absorb up to Pta500bn of Endesa shares in a single offering.

Endesa, which made record net profits of Pta81bn in the first six months of this year, is the jewel in the state's corporate crown. Its privatisation has been delayed by the setting-up of a liberalised regulatory framework for the electricity sector. Broad agreement on the liberalisation guidelines and on new tariffs is expected before the end of this month.

The revenues raised from the sales will be placed in a common fund, supervised by the industry ministry, that will seek to end the haemorrhage of funds to state-owned companies. Between 1989 and 1995 total government funding to these state-owned companies amounted to Pta8,664bn. An amount of Pta672bn is already earmarked as subsidies to loss-making enterprises during the 1997-99 period.

The ministry believes that Hunosa, the nationalised coal group, should be wound up over the next 10 years. Hunosa lost Pta77bn last year and is scheduled to receive government aid totalling Pta230bn over the next two years.

The ministry also believes cuts will be needed in the state-owned shipyards. These are forecast to lose Pta30bn this year, 50 per cent more than planned. The armaments group Santa Barbara will have to close three of its seven plants and shed a third of its 2,200 labour force to avert bankruptcy.

Customers shop in a Paris supermarket near a poster promoting the use of the proposed European single currency, the euro. The Leclerc supermarket chain is using specially *minted euro coins in its 500* outlets to raise public awareness about the new units. Picture: Reuter

Italy warned against 'hasty' return to ERM

By Lionel Barber in Luxembourg

France warned Italy yesterday against a "hasty" re-entry of the lira into the exchange rate mechanism.

The warning, delivered in the margins of a meeting of European Union finance ministers in Luxembourg, foreshadows tense negotiations between Italy and the EU on the terms of re-entry.

Hopes that the Italian currency would re-enter soon rose after the weekend agreement on the entry for the Finnish markka at 3.04 to the D-Mark.

But Mr Jean Arthuis, French finance minister, declared that the lira's parity inside the ERM had to be "durable, sustainable, and equitable".

"To be hasty on the re-entry [of the lira] would mean to take a risk which would cause harm to the Italian and European monetary authorities," he said.

France's hard line on the lira's parity coincides with German reservations about admitting *debt-ridden* Italy in the first wave of countries joining the planned launch of economic and monetary union on January 1 1999.

Mr Jürgen Stark, deputy German finance minister, called for a "clear, hard, strict, and narrow" interpretation of the Maastricht treaty's criteria for Emu membership.

The Maastricht criteria cover public deficits, government debt, inflation, and interest rates. The treaty also stipulates that countries must respect the "normal" fluctuation margins provided by the ERM without severe tensions *for at least two years.*

The dilemma for the EU is that the centre-left government in Italy is making unprecedented efforts to meet the public deficit target of 3 per cent of gross domestic product, and is sensitive about having its chances of membership prematurely written off.

Mr Romano Prodi, Italian prime minister, is pushing a draconian budget for 1997 through parliament to qualify *for Emu in spring* 1998. Observers believe he would like to open talks on the lira's re-entry after passage of the budget, possibly by mid-November.

Mr Carlo Ciampi, Italy's treasury minister, said he was

Continued on Page 16

Philips set for further change after warning over profits

By Gordon Cramb in Amsterdam

Philips, Europe's biggest maker of electronics goods, yesterday warned that half-year profits may not rise – foreshadowing a further internal *shake-out.*

"We believe *it necessary to* accelerate planned actions for recovery," the Dutch group said, promising further details when it announces *third-*quarter results in nine days.

Based on preliminary information for the three months to September, Philips said it was "most unlikely" that operating income in the half year would improve from the Fl 2.18bn ($1.3bn) achieved in July-December 1995.

Philips' shares on the Amsterdam Stock Exchange closed Fl 2.30 down at Fl 62.50 on the news, the first statement on the company's outlook since Mr Cor Boonstra took over this month as chairman from Mr Jan Timmer.

Asked why it had needed to issue *a profit warning so close* to a results announcement, an official said: "If we have this knowledge internally, we feel it is appropriate in the financial world that we share that knowledge with our stakeholders." He declined to specify where the problem lay.

In late July Philips, which has been hit by severe price competition across a range of its activities, cut 6,000 jobs – *or 15 per cent of those* employed – at its consumer

Continued on Page 16
Lex, Page 16

Buoyant Dow boosts shares across Europe

By Lisa Bransten in New York and Philip Coggan in London

The Dow Jones Industrial Average surged past the 6,000 mark in early trading yesterday, apparently headed for a new landmark in the long-running world bull market in *equities.*

The strength of Wall Street gave a further lift to shares in Europe, where several indices set new highs. In London, the *FT-SE 100 index* recovered from early losses to notch a record close of 4,038.7, up 10.6 on the day. Closing peaks were also established in Budapest, Copenhagen and Oslo.

The recent buoyancy of the US stock market was prompted by the US Federal Reserve's decision last month not to raise interest rates. Subsequent economic statistics indicating a lack of inflationary pressure have appeared to back the Fed's judgment.

Twice last week the Dow climbed above 6,000 during trading, only to fall back. Yesterday's move was more decisive: *at 1pm New York time,* the Dow was up 43.23 at 6,012.61. However, the rise came in light volume and without the support of the bond market, which was closed in observance of Columbus Day.

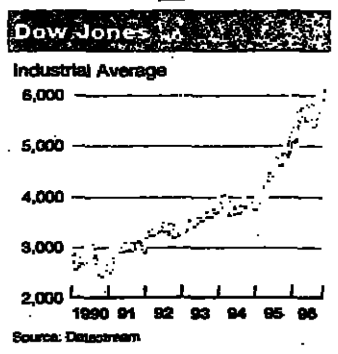
The Dow's move through 6,000 has been halting compared *with its surge* through 5,000 last November, just nine months after passing 4,000. Then, in one of the strongest bull market runs in the history of US equities, the blue chip index smashed through 5,000 and continued straight up for six months, until worries about the strength of the technology sector led to rockiness on the market over the summer.

Few on Wall Street are worried about this weekend's anniversary of "Black Monday" – October 19 1987 when the Dow tumbled more than 22 per cent in one day – but many believe the pace of the market's increase should slow along with the cooling pace of corporate earnings growth.

Mr Eric Miller, chief investment officer at Donaldson Lufkin & Jenrette, believes that *estimates for 12 per cent earn*ings growth next year are too optimistic and could contribute to volatility in the market if corporate earnings disappoint. "I don't think we're going to see 7,000 in 1997," he said.

In Europe, share prices have been supported by low interest rates as governments and central banks try to offset the restrictive fiscal packages imposed to qualify for the single currency.

Dow Jones



Source: Datastream

London stocks, Page 34
World stocks, Page 38

CONTENTS

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

Italians square up for battle on pay

By Robert Graham in Rome

A stand-off on pay rises between Italy's industrialists and the country's powerful trade unions has raised the spectre of serious strife.

Workers in the engineering sector, traditionally the benchmark of industrial relations, have called a second strike for November 15; and on Thursday union leaders will decide whether to extend this stoppage throughout industry.

Industrial relations appear to be deteriorating after almost six years of unprecedented tranquillity in several sectors. The unions are concerned to halt a consistent drop in real wages since 1993 and have decided to make a stand against moves to erode their bargaining power.

In a climate of budgetary austerity they are also worried that, despite statements of good intent, the centre-left government of Mr Romano Prodi will not be able to do much to reduce unemployment, running at 12 per cent of the workforce.

The engineering workers are insisting on strict interpretation of an agreement between the government, unions and employers in July 1993 that ended indexed wages (the old *scala mobile*) and linked pay to productivity increases. Annual pay rises were based on the government's inflation projections, not the real figure. Since inflation has failed to come down as planned, wage-earners have lost out.

The 1993 agreement envisaged a revision this year but its terms are ambiguous about the extent to which unions are entitled to recover lost earnings.

Confindustria, the employers' confederation, and Federmeccanica, the engineering employers' federation, say there is no automatic entitlement and have offered a monthly increase of L165,000 ($108) for the next two years plus L30,000 towards lost earnings.

The unions are not disputing the wage offer for 1996-98 but want L97,000 a month to recoup lost purchasing power. They also suspect employers want to rewrite the 1993 accord to their advantage and use job creation as a carrot to establish greater labour flexibility.

Confindustria says it is being tough because rising wage costs could affect the competitiveness of Italian industry at a time when the lira has been recovering.

The government has kept to the sidelines, but cannot avoid being dragged in soon as the wage issue is liable to become entangled with the unions' attitude towards the 1997 budget which has just begun its parliamentary passage.

Workers at Europe's biggest integrated steelworks at Taranto in southern Italy yesterday blocked railway lines and staged other protests over a partial management lock-out.

Taranto was acquired by the Riva private steel group from the state holding company, Iri, last year, and is in the process of negotiating a new wage deal while restructuring the plant.

Today, ground staff at Italian airports are due to strike over stalled talks on pay and conditions. Tomorrow local transport workers will go on strike for the rest of the week. Both disputes date back to issues unresolved since last year.

Commissioner offers compromise on trawler cuts in face of fierce resistance

Bonino tries to rescue fisheries plans

By Caroline Southey in Luxembourg

Ms Emma Bonino, European fisheries commissioner, yesterday tried to salvage plans for dramatic cuts in some fish catches by lowering demands for reductions in trawler fleets in the face of fierce resistance from EU ministers.

Under a compromise, the number of trawlers would be reduced by 15 per cent over six years, at an annual rate of 2-3 per cent. Officials said this was designed to achieve cuts in the catches of the most threatened stocks, such as cod, haddock, sardine, salmon and hake.

Ministers had rejected as too high Ms Bonino's call for a 40 per cent reduction in EU fishing capacity. She has insisted that her aim had always been to reduce catches – rather than fleet sizes – by that amount. The ministers agreed unanimously that lower catches were necessary to protect stocks but, Mr Sean Barrett, the Irish minister, said "alternative solutions" to fleet cuts had to be found. "We have to deal with human beings on the ground. We have to be realistic about the socio-economic effects of the cuts."

Mr Fernando Gomes da Silva, Portugal's minister, argued that it was possible to control stocks "but not necessarily by destroying fleets".

Ms Bonino told ministers the 40 per cent cut in catches could be achieved by member states taking steps in addition to fleet cuts, such as reducing the number of days trawlers could spend at sea, and by technical measures such as smaller net sizes. She said, however, it was essential to shrink fleet sizes as part of the overall package. "We must find permanent solutions. We cannot rely simply on temporary measures."

All 13 ministers (Luxembourg and Austria are not affected) stressed that the cuts would cause economic hardship and rejected Ms Bonino's plans for an Ecu2.8bn ($3.5bn) package for fishing communities to cover 1997-1999. "The cuts stretch over six years but there is only money for three. This is clearly unacceptable," said one diplomat.

Several ministers urged Ms Bonino to raise the size of boats excluded from the cuts from the proposed 7m to 14m. She rejected the idea, however, pointing out that 86 per cent of the Union fishing fleet was made up of vessels of 14m and under.

Mr Tony Baldry, the British minister, echoing the views of several others, said the proposals were flawed because Ms Bonino had failed to take account of the impact of industrial fishing on stocks.

Ministers also challenged the scientific basis of the proposals, particularly the commissioner's assumption that improved fishing techniques would increase capacity by 2 per cent a year.

Ireland, which currently holds the council presidency, will attempt to break the deadlock in meetings with individual member states before the next fisheries council meeting on November 22.

In a BBC interview, Ms Bonino accused the British government of providing incentives for illegal fishing by failing to cut its trawler fleet to match dwindling stocks.

Portugal puts its money on the euro

Peter Wise previews a budget deeply influenced by a desire to be one of the first countries to join European monetary union

So loudly has Mr António Guterres, the prime minister, proclaimed that Portugal will be one of the first countries to participate in European monetary union that failure to be included could be as great a blow to his political future as to the nation's self-esteem.

Expectations are high. According to a recent poll, more than 80 per cent of the population wants Portugal to adopt the single currency, the euro. The two main political parties, accounting for 77 per cent of the vote in last year's general election, are committed to Portugal's participation in the first stage of Emu, due to begin in 1999.

"After 10 years in the [European Union], Portugal would be relegated to the same position as Poland, Hungary and the Czech Republic, who are only candidates to join the EU, if we failed to be included in the first phase of Emu," says a senior member of the previous centre-right government. "We would lose all influence over the future of Europe."

Although voters are often led to believe otherwise, the minority Socialist government appears resigned to the fact that it is improbable that Portugal might be allowed to adopt the single currency before the bigger southern European economies. While the reverse is not necessarily true, economists believe it is unlikely.

Today the government announces its 1997 budget proposals. Its main objective is to cut the fiscal deficit from an expected 4 per cent of gross domestic product this year to 2.9 per cent in 1997, just within the 3 per cent required by the Maastricht treaty.

Inflation is forecast to drop from 3.6 per cent in 1996 to below 2.5 per cent and the government has forecast public debt to fall to 63 per cent of GDP by 1998, close to the 60 per cent Maastricht requirement.

"The Emu goals are within our reach," Mr Guterres assured parliament recently. "We can achieve them with measures that are in themselves beneficial to the economy and without provoking the social confrontations that have occurred in much richer countries."

His faith is increasingly shared by others. "I believe Portugal is going to make it," said Mr Luis Marti, vice president of the European Investment Bank, speaking in a personal capacity. "Outside the core European economies, Ireland and Portugal are the two countries near enough to be included."

Financial markets appear to agree. The differential between Portuguese and German interest rates on 10-year bonds has fallen from about 520 basis points in early 1995 to a current 165 points as investors reward Portugal's success in lowering inflation and the budget deficit.

"Portugal's economic fundamentals are unquestionably superior to those of Spain or Italy," says Ms Sally Wilkinson, an economist with Union Bank of Switzerland. "Portugal has achieved convergence with a far better track record for currency stability than Spain, which has undergone significant devaluation." From 1993 to 1995 the escudo fell in average terms by 7.5 per cent against the D-Mark while the Spanish peseta fell 13 per cent over the same period.

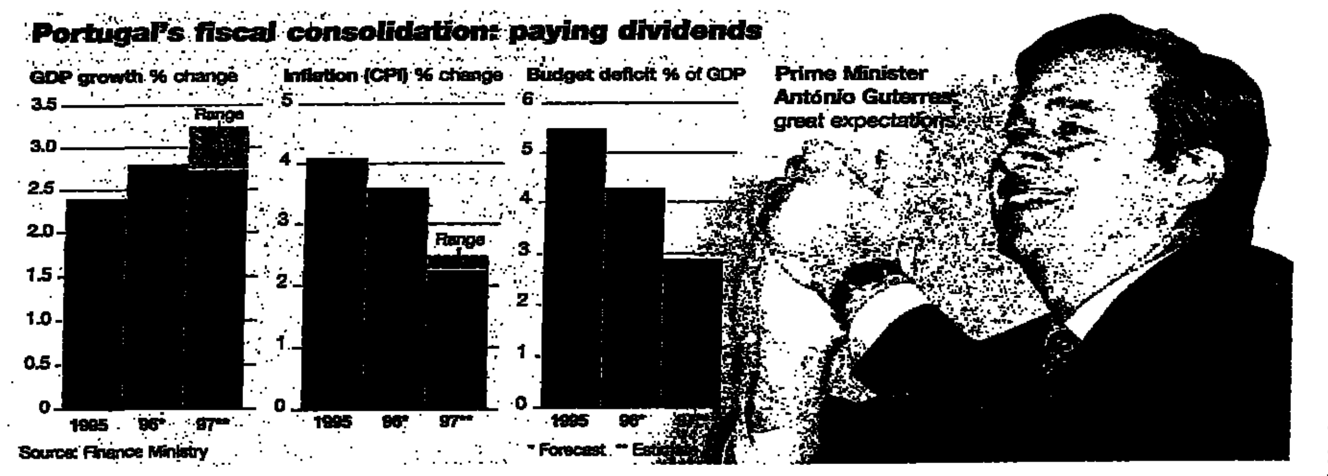
Economists also argue that Portugal has much to gain from a single currency. "When you no longer have foreign exchange risk within the euro bloc, companies will be asking which country offers the best return on investment in terms of labour costs and government incentives," says a London analyst. "The obvious answer will be Portugal."

If Portugal's participation in Emu is delayed, the government is committed to keeping the escudo tied to the euro by remaining inside a reformulated European exchange rate mechanism. The main difficulty would be maintaining the discipline required to continue fiscal consolidation.

"Remaining fiscally rigorous for several more years without the reward of lower interest rates would be very hard," says a minister in the previous government. "It is questionable whether the Socialists would have the political strength to make the tax increases and social spending cuts that would be required."

Portugal will nevertheless find some consolation in the dividends already being paid by its efforts to liberalise markets and control the budget deficit.

Mr Scott Beaumont, an analyst with HSBC James Capel, points out that Portugal's average GDP growth over the past decade is almost double that of Greece – which has a similar per capita income and has only recently begun to apply such policies – and an inflation rate less than half that of Greece.



Prime Minister António Guterres: great expectations

Socialist government's budget foresees gain with little pain

Debate begins in the Portuguese parliament today on 1997 budget proposals that the minority Socialist government says will meet targets for European monetary union without raising taxes or cutting social spending, writes Peter Wise.

The finance ministry said yesterday the budget deficit would fall to 2.9 per cent of gross domestic product from an estimated 4 per cent this year, complying with one of the convergence criteria for a single currency.

The Socialists are four seats short of an overall majority but the main centre-right opposition party also supports Emu and has said it will ensure the government is not defeated.

The government is forecasting inflation to fall to 2.25-2.5 per cent next year from about 3.6 per cent in 1996. But analysts said this could prove incompatible with a planned real increase in public sector pay.

An increase in current revenue from 45.3 per cent of GDP in 1996 to 45.9 per cent, while current spending is kept stationary at 48.8 per cent of GDP, is the main basis for the proposed cut in the budget deficit. Revenue is forecast to grow mainly as a result of a projected increase in GDP growth to 2.75-3.25 per cent in 1997 from an expected 2.8 per cent this year. The government also aims to improve tax collection.

Austrian poll puts far-right nearer to power

By Eric Frey in Vienna

The strong showing of Austria's far-right Freedom party in the polls for the European parliament and Vienna city council on Sunday has moved Mr Jörg Haider, the party leader, nearer to his goal of winning the chancellorship, observers said yesterday.

The party's 30 per cent of the vote will have no immediate impact on the coalition government of Social Democrats and the conservative People's party, but is certain to weaken Chancellor Franz Vranitzky, who has been trying over the past decade to exclude Mr Haider from power.

Austrian voters, like those in other other countries, use European elections to protest against government policy and EU integration, but Mr Haider's gains were part of a longer-term trend that has made the Freedom party one of the most successful nationalist forces in western Europe.

In the 10 years since Mr Haider took over the leadership of the then centrist party and moved it sharply to the right, he has gained votes at every election but one – the general election in December 1995, which the Social Democrats won with a pledge to preserve welfare programmes.

When the government imposed spending cuts and tax rises in February to bring Austria in line with the economic criteria for a single European currency, Mr Haider had ample opportunity to accuse it of breaking promises.

The strategy paid off on Sunday. He got 28 per cent of the European vote, compared to 22 per cent at the December elections, and pulled level with the two governing parties which have dominated Austrian politics since 1945.

The Social Democrats dropped from 38 per cent in December to 29 per cent while the People's party edged up from 28 per cent to 30 per cent. The Freedom party took an unprecedented 28 per cent in Vienna cutting the Social Democrats' share from 48 per cent to 39 per cent.

Power continues to elude Mr Haider, mostly because of his strident rhetoric against foreigners and statements in which he sounds like a Nazi admirer. The Vienna Social Democrats yesterday started coalition talks with the People's party, the Greens and the new Liberal Forum, but ruled out any dealings with the Freedom party.

At the national level, the People's party said it wanted to continue the coalition with the Social Democrats, but observers do not expect the coalition to survive the next general election, due in 1999.

Since joining forces in 1986, the Social Democrats and the People's party have seen their share of votes fall from 85 per cent to less than 60 per cent, while the Freedom party has risen from 5 per cent to nearly 30 per cent by opposing everything the government has done.

Mr Haider's entry into government would isolate Austria in the EU. Mr Vranitzky's coalition pursues a clear pro-European policy but Mr Haider rejects the Maastricht treaty, opposes monetary union and calls for big cuts in Austria's contributions to the EU budget.

Swedish premier sees no rush to join ERM

By Hugh Carnegy in Stockholm

Sweden is in no hurry to follow Finland into the European exchange rate mechanism, according to Mr Göran Persson, the prime minister. Those arguing that it was a vital precondition for monetary union membership were illogical, he said yesterday.

But Mr Persson said he had not "closed the door" to joining the ERM and it was still possible Sweden might seek to join Emu from its planned start in 1999.

"We have such a strong position today that we don't need to bother about what others do," Mr Persson said. "All the basic facts are in favour of Sweden, so we can wait. There [will be] no decisions about a Swedish ERM connection in the near future; no decision at all."

The prime minister pointed to the calm reaction of financial markets yesterday to Finland's weekend move into the ERM as evidence of confidence in Sweden's greatly improved public finances.

He took issue with Mr Theo Waigel, the German finance minister, and others who insist prior ERM membership is indispensable to Emu entry. "I can't see why he is so focused on that. I can't see that those who claim ERM membership is necessary for Emu entrance have a logical way of arguing. We have a logical way of arguing.

Sweden already regarded its currency as stable and believed it would be able to demonstrate the fact when the time came for deciding which countries would be the first to join in monetary union. "So we are not in a hurry at all," he said in an interview.

It was possible that Sweden would join Emu from the start. "We haven't said Yes and we haven't said No. Our policy is constructed so that the Swedish parliament can have the possibility to say Yes if we want to in autumn 1997."

Simon Kuper adds from London: The currency markets gave a calm welcome to Finland's ERM debut, with the markka closing at DM1.9850, hardly changed from Friday's close.

The Finnish central bank is expected to try to keep the markka within an unofficial 2.25 per cent band against other currencies. This means the bank would be likely to intervene if the markka fell below about DM2.97. However, the currency is expected to trade in the upper half of its band.

Santer rebuffed over transport networks

By Lionel Barber in Luxembourg

Mr Jacques Santer, the European Commission president, yesterday mounted a last-ditch effort to win extra funds for the EU's showcase transport networks, but suffered another bloody nose at the hands of finance ministers.

During a lively exchange in Luxembourg, Mr Santer, enlisting the Benelux countries as allies, accused ministers of "killing" five out of 14 priority transport projects.

Mr Santer's move surprised the Irish presidency and other delegations who had viewed his plea for an extra Ecu1bn ($1.25bn) funds as a lost cause after France, Germany and Britain blocked the plan at the Florence summit in June.

The multi-billion dollar TENs infrastructure networks include high-speed rail links to the four corners of the European continent, new motorways, and a railroad tunnel through the Brenner pass.

Mr Santer has come to view the launch of the networks as a symbol for his "Action Plan" to bolster competitiveness in Europe and to tackle unemployment.

Heads of government have pledged support for TENs at successive summits since December 1994, but finance ministers have blocked efforts to increase funding inside the EU budget.

Mr Santer has turned EU leaders' promises into an issue of credibility and a wider test of his political authority.

At the Luxembourg meeting, the Irish presidency sought to restrict the debate to economic arguments. Sir Brian Unwin, head of the European Investment Bank, stepped in to reject suggestions that the transport projects were being delayed because of a lack of finance.

The EIB had committed Ecu30bn over the past three years toward total costs of Ecu100bn, including telecommunications, energy and transport projects. But he conceded that some networks might need subsidies at a later date to make them financially viable.

Commission officials said Sir Brian was focusing on the economically viable networks rather than marginal railway projects.

In a further development, the Commission is understood to have had contacts with the European Parliament with a view to putting pressure on the Council of Ministers to keep alive hopes of extra TENs money.

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Foreign retailers set up their stalls in Hungary

Virginia Marsh reports from Budapest on its latest import - the shopping mall

Budapest's first shopping mall opened yesterday, complete with shops, restaurants, a skating rink, nine-screen cinema, bowling alley, three floors of offices, a 1,300-space car park and a direct link to a metro station.

Duna Plaza, a DM90m ($60m) investment backed by Transelektro, a local trade and industrial group, represents a further step for an rapidly changing economy which a decade ago paid little attention to individual choice or consumer convenience.

Next month, the Hungarian capital gets its second mall. Called Polus Palota, it is being built on a former Soviet military base in north-east Budapest by Granit Polus, a Canadian-Hungarian venture that plans to develop 25 malls in the former eastern bloc.

Polus's largest unit has been taken by Tesco, the British supermarket chain and it will also boast Hungary's first Italian department store, following a franchise agreement with Mr Silvio Berlusconi's Fininvest group to open Standa department stores in Granit Polus malls.

Hundreds of shops have opened up in Budapest in recent years but they are spread all over town and some are hard to find, tucked in courtyards off main streets. Parking is a problem in the city centre, and almost all shops close early in the evening and at lunchtime on Saturday.

Good retail premises can be hard to find, with local government owning much of the existing space in the city centre.

"If you want to sell a lot, you need space and you're very lucky if you can get large premises in the centre," says Mr Otto Gecser, director of Fotex, one of the country's largest retailers.

Even though Fotex already has some 650 shops countrywide, ranging from furniture outlets to opticians and cosmetics chains, he has high hopes for malls, especially in the greater Budapest area where about 30 per cent of Hungary's 10.5m population live.

However, the present spate of developments – several hypermarkets are planned as well as other malls – is largely driven by western retailers.

Besides Tesco, Julius Meinl and Kaiser's, part of Germany's Tengelman group, already have large chains. Metro, the Swiss-owned cash-and-carry chain, which opened its third store in Budapest this month has invested Ft15bn ($100m) in a little over two years.

"Six years ago there was little interest among foreign retailers," says Mr Jock Mackenzie, who heads Prosperity 2000, a retail lobby group which also runs a training school that, among other things, aims to instill more service-friendly attitudes in a country once known for its surly sales assistants and bank tellers. "Now it's the reverse. There are dozens of western groups competing for market share, and in some areas we've already reached saturation point."

Foreign supermarket chains are being followed into the market by western DIY and furniture shops, he says, as well as over-the-counter chemists and cosmetics sellers. Music retailer Virgin of the UK opened a Megastore – its first in Hungary – in Duna Plaza, which also houses Marks and Spencer's third local store.

"The country is moving away from a twice-a-day shopping culture, with people popping out in the morning to buy bread and milk and then again at lunchtime, to one where people shop once every three or four days," he says.

The growing disposable income of the country's emerging middle class is one factor behind the appearance of malls and for the increasing western interest. But the city's improving infrastructure can now support bigger developments; many of the present projects are situated alongside the new network of roads around Budapest.

At the same time, more people have cars to drive to out- of-town shopping locations, and buying in bulk is possible for the growing number of freezer-owners and those moving out of the cramped apartments typical of the Communist era into larger homes.

Not everyone, however, is happy with the many new developments.

"There's a very real danger too much will be built. The city is not learning from the mistakes made in the west," says a western property executive. "Some foreign companies are coming here precisely because they are no longer allowed to blight the landscape back home with their huge developments and because, in western Europe, we have woken up to the sometimes devastating impact of out-of-town centres on traditional inner city areas."

He says there is a lack of urban planning in Budapest and that, instead, local councils are competing to sell developers land. "Local authorities are desperate for cash. But they're thinking three months ahead when they should be considering the long-term environmental and financial implications. There's going to be a big waste of money."

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EUROPEAN NEWS DIGEST

German GDP rise continues

Germany maintained its economic recovery in the third quarter, the Bonn economics ministry reported yesterday. It predicted that gross domestic product would show stronger year-on-year growth than in the second quarter when GDP was a real 1.2 per cent higher than in the second three months of 1995.

However, the ministry said growth was insufficient to have a significant impact on Germany's high unemployment of 3.85m and singled out sluggish business investment as a problem.

The ministry said it was vital that the government's programme of deregulation, spending cuts and tax reform be implemented rapidly and in full.

The warning came as one important part of the programme – the 1997 tax bill, which includes a streamlining of business taxation – was in deep trouble because of differences between the government and the opposition Social Democrat party, which has blocked the legislation with its majority in the second chamber of parliament representing the states. *Peter Norman, Bonn*

González opens up poll lead

Mr José María Aznar's Popular party government has registered a sharp fall in popularity within six months of taking office, according to the quarterly poll of voting intentions published by the newspaper El País. The poll indicated that the opposition Socialist party led by Mr Felipe González (pictured left yesterday) had opened a five percentage point lead over the centre-right PP, reversing the findings of the newspaper's poll last July. The poll comes amid a political debate over a court request for the declassification of secret service papers that allegedly link the former government to an undercover war waged against suspected Basque separatists of the ETA organisation in the early 1980s. The poll said 66 per cent of those surveyed believed the papers should be released to judges investigating the death squads which claimed 28 victims.

Government officials said yesterday they would be declassified if this was requested by the Supreme Court which will rule early next month whether Mr González should be called to testify in connection with the investigation. Defence minister Eduardo Serra however said the documents should remain secret, indicating an open split in the cabinet. *Tom Burns, Madrid*

Ukraine to let hryvna float

Ukraine will let the hryvna float freely on the local foreign exchange markets, the central bank chairman said yesterday. Mr Victor Yushchenko told Interfax/Ukraine that the bank last week stopped defending a rate of 1.76 hryvna to the dollar. Ukraine had spent $200m in order to boost confidence in the new currency since its introduction on September 2. The hryvna yesterday closed at 1.77 to the dollar on the Interbank Currency Exchange. Analysts expect the hryvna to remain steady in the coming weeks. Capital inflows are growing and monthly inflation was 2 per cent in September.

Mr Yushchenko said last week that Kiev still wants a $1.5bn currency stabilisation fund from the International Monetary Fund in place by early next year. He said Ukraine might then adopt a different exchange rate policy. A fixed peg against a hard currency or a narrow trading ban have been suggested. *Matthew Kaminski, Kiev*

French communists probed

The current and past heads of the French Communist party have been placed under formal investigation by a magistrate in relation to allegations that they illegally accepted payments for their party from Générale des Eaux, the French communications and utilities group.

Mr Robert Hue, secretary general, and Mr Georges Marchais, who headed the party for 22 years until January 1994, were both "mis en examen" by the Paris-based Judge Laurence Vichnievsky in connection with his inquiry into payments alleged to total about FFr25m ($4.8m) paid between 1984 and 1994 to Sicopar, market research consultants believed to have been closely linked with the Communist party. *Andrew Jack, Paris*

Marseilles poll polarised

Candidates from both the Communist and the far-right National Front parties triumphed in Sunday's first round of voting in a Marseilles parliamentary election, in a result reflecting discontent with both the Juppé government and with the opposition Socialist party.

The by-election at Gardanne, just north of Marseilles, was to replace Mr Bernard Tapie, who has been forced by multiple legal problems to resign his parliamentary seat. Running in the same Radical Socialist colours as Mr Tapie, Mr Bernard Kouchner, former health minister in a Socialist government, gained only 13.2 per cent, or half the first round score of Mr Tapie in 1993. The government-backed candidate won only 15.6 per cent.

In contrast, Mr Roger Meï, Communist mayor of Gardanne, doubled his 1993 first-round score to 37.8 per cent, giving him the edge in the run-off election in two weeks. Mr Damien Bariller, National Front candidate, boosted his performance by 8 points to 26.8 per cent. Polarisation of the vote to the anti-European extremes was a blow to mainstream parties, particularly to the Socialists, where some complained yesterday their party's pro-European stance was preventing them capitalising on discontent with the government. *David Buchan, Paris*

ECONOMIC WATCH

Belgian GDP rises by 3%

Gross domestic product in Belgium rose 3 per cent in the second quarter compared with the first and was up 1.5 per cent on the same quarter last year, according to the Belgian National Bank. Revised figures also showed that in the first quarter GDP rose 1.3 per cent from the previous quarter, up 0.4 per cent on the year.

Economists have already recast their forecasts for growth this year upwards to around 1.5 per cent. The growth this year may help to ease the impact of a tough austerity budget unveiled a week ago by Mr Jean-Luc Dehaene, the Belgian prime minister.

The Bank's figures showed that private consumption rose 1.5 per cent in the second quarter, compared with the first and was up by 1.6 per cent year on year. Company investment was up 10 per cent in the second quarter compared with the first three months of the year, and up 1.7 per cent year on year. *Emma Tucker, Brussels*

■ Spanish producer prices were unchanged in August from July, but were up 0.8 per cent from a year earlier.

■ The EU's seasonally adjusted unemployment rate was 10.8 per cent in August, unchanged from July and compared with 10.7 per cent a year earlier.

■ Norway had a September trade surplus, excluding ships and oil platforms, of NKr6.089bn compared with a surplus of NKr9.5bn in August and NKr4.096bn in September last year.

Russia 'must pay taxes to beat poverty'

By John Thornhill in Moscow

One-quarter of Russians live below the poverty line but there is little the government can do to ease their plight unless companies start paying their taxes, Mr Victor Ilyushin, Russia's social services minister said yesterday.

Describing the situation as "critical", Mr Ilyushin said real incomes had fallen 40 per cent since 1991 while income differentials had increased dramatically.

"We have to admit that poverty is widespread. The number of citizens on incomes below the subsistence level is about one-quarter of the Russian population," he said.

The number of Russians living below the official subsistence level of about $60 a month has fallen as a result of the sharp falls in the inflation rate. In 1992 one-third of Russia's 150m population was then estimated to live below the poverty line.

Mr Ilyushin, who left the presidential administration to join the government two months ago, attacked company directors for not paying their tax bills on time. This had hamstrung the government's attempts to provide adequate social welfare for the most needy, he said.

The public health authorities had only received 60 per cent of their budget this year, education 65 per cent, and culture 30 per cent. "We can only pay wages and even here problems are arising," he said.

President Boris Yeltsin last week demonstrated his determination to get tough with tax debtors by establishing an extraordinary commission to chase payments. It is headed by Mr Victor Chernomyrdin, prime minister, and Mr Anatoly Chubais, chief of presidential staff.

Mr Chubais said yesterday that some of the first revenue to be raised by the commission would be used to develop the federal judicial system, giving the state stronger legal powers to collect overdue taxes.

"Society is suffering both due to a lack of laws and the state's inability to enforce them," he said.

There is considerable resistance among many Russians to paying taxes given the current political uncertainties and the low opinion in which the government appears to be held.

An opinion poll of 1,600 Russians published yesterday found that 71 per cent believed taxes were too high with only 11 per cent approving of the government's drive to raise tax revenues.

The tax police have begun a television advertising campaign urging people to examine their consciences and pay their taxes so that pensioners and the poor do not suffer.

Mr Roland Nash, economist at Renaissance Capital, a Moscow-based investment bank, dismissed the excuses of many indebted companies that a build-up of inter-enterprise debts prevented them from paying their tax bills.

"The problem with revenues is not so much that they do not exist, but that they have not been collected," he said.

Some economists suggest, however, that forcing some struggling Russian companies to settle their tax arrears could push them into bankruptcy, increasing the country's unemployment rate and further straining government finances.

Belgians shocked at removal of Dutroux judge

By Emma Tucker in Brussels

Belgians reacted with shock and anger last night after the judge credited with doing the most to uncover a paedophile ring and arrest the alleged killer of four young girls was removed from the investigation.

The Cour de Cassation, Belgium's highest court, said it was upholding formal complaints against Mr Jean-Marc Connerotte, that he had compromised his impartiality by attending a dinner organised by supporters of the victims' families.

The complaints against Mr Connerotte, the investigating magistrate in the so-called Dutroux affair, were brought by lawyers for the two main defendants who have been charged in connection with the paedophile ring.

The decision provoked a demonstration outside Brussels' Palais de Justice where a crowd of protesters booed at the news of Mr Connerotte's dismissal from the case.

He has become something of a national hero following his work to uncover the case which involved the alleged kidnapping and murdering of two eight-year-old and two teenage girls. His supporters argue that his presence at a spaghetti supper by victims' families was a simple act of humanity.

The court president said yesterday the impartiality of magistrates was "a fundamental rule".

Yesterday Mr Paul Marchal, father of Ann Marchal who is alleged to have died at the hands of the paedophile gang allegedly led by Mr Marc Dutroux, said: "It is the beginning of the end. Justice is dead."

The lawyer representing the families of Julie Lejeune and Melissa Russo, the eight-year-olds alleged to have been left to starve by Mr Dutroux, said he would appeal against the decision.

One consolation for those opposed to the removal of Mr Connerotte is that the investigation will continue to be carried out by the public prosecutor's office in Neufchateau. The victims' families had feared it would be transferred to Brussels or Liège.

Later this week King Albert of Belgium and Queen Paola will meet the justice minister, Mr Stefaan De Clerck, for a round-table discussion on the case which has shocked Belgium to its core and undermined confidence in the country's justice system.

Mugabe rejects attack over power plant tender

Zimbabwe's president tries to deflect outcry from foreign companies and local unions

Robert Mugabe: dashed hopes of reconsidering YTL deal

President Robert Mugabe has vigorously defended the controversial $580m sale of a 51 per cent stake in Zimbabwe's state-owned Hwange power station to a Malaysian company amid alarm from foreign investors and protests from local trade unions.

Under the deal YTL Corporation, the Malaysian power producer, would invest Z$6bn ($571m) in a joint venture project.

In his first public comment on the deal, Mr Mugabe said in an interview that part of the proceeds would go towards helping black entrepreneurs set up new companies.

The Hwange project is thought to be the biggest tender awarded in Zimbabwe since independence from Britain in 1980.

The deal dismayed other foreign contenders and alarmed western diplomatic missions in Harare because it bypassed the established tendering procedure.

The country's trade union movement "unreservedly condemned" the agreement. A statement from the Zimbabwe Congress of Trade Unions said: "We are witnessing a massive asset stripping exercise veiled in the name of privatisation ... the shroud of secrecy under which the deal was struck is totally unacceptable."

It is the third dispute this year where the government has failed to follow through the tendering process, or negotiated contracts under controversial circumstances.

A tender awarded to Ericsson, the Scandinavian telecommunications company, to establish Zimbabwe's first cellular phone system was cancelled after claims by the US and German governments that the tendering system had not been open. The fresh tender was subsequently won by Siemens.

A bid for the construction of a new international airport, awarded to a Cyprus-based company linked with Mr Leo Mugabe, Mr Mugabe's nephew, has also been disputed, with critics saying the company had failed to meet the tender's criteria.

The decision to award the Hwange project to YTL had been opposed by the Zimbabwe Electricity Supply Authority (Zesa), but the entire board was sacked at the start of this month.

The move was attacked by the ZCTU, which said: "Dissolving a board for standing for the truth is naive, intimidatory, dictatorial and outright irresponsible".

In an interview with the FT Mr Mugabe sought to deflect criticism by disclosing that part of the proceeds would go towards giving young black entrepreneurs a start in business.

An unspecified amount would go into an investment trust fund "which we can use for the purpose of empowering blacks". Details of the scheme are still being worked on by the government.

However Mr Mugabe dashed the hopes of European diplomats that the Malaysian deal could still be reconsidered. Six foreign companies were already on the short list when the deal was announced.

"There are those who do not want to see a country like Malaysia entering our economy ... some European donors think they alone should participate in our economy. But they are here already in a very strong way, and we want other participants as well."

Mr Solomon Tawengwa, the sacked Zesa chairman, had earlier warned in a letter to the transport minister that the YTL bid "amounted to a virtual takeover of Zesa assets for a mere pittance at the expense of our indigenous people".

The board shortlisted six companies: Houston Industries Energy (US); YTL; Tractebel (Belgium); National Power (UK); Nordic Power Invest (Sweden); and Electricité de France.

Michael Holman and Roger Matthews

PUK advance towards key town ■ Iranian involvement denied ■ US calls for ceasefire

Anti-Saddam Kurd faction captures two more towns

By Roula Khalaf

The Iraqi Kurdish faction opposed to Iraqi President Saddam Hussein yesterday gained further ground in the Kurdish north, recapturing two more towns from the rival Kurdistan Democratic party (KDP) after taking the city of Sulaimaniya.

Written off last month as having lost virtually all its Kurdish territory, the Patriotic Union of Kurdistan (PUK), led by Mr Jalal Talabani, made a surprise comeback. Its troops were yesterday in the towns of Degala and Koi Sanjak and stood 20km from the regional capital of Arbil, captured by the KDP and Iraqi troops only last month.

Iraqi backing for the KDP in September allowed Mr Saddam to reassert his influence in the Kurdish enclave and make a mockery of the so-called "safe haven" set up by the allies to protect the Kurds after the Gulf war. But it also prompted US retaliatory strikes on Iraq's air defence systems in the south.

The KDP said yesterday that the PUK offensive was backed by Iranian Revolutionary guards as well as an Iraqi opposition Shia group based in Iran. Although the PUK has friendly relations with Iran, western diplomats said there was no evidence of direct Iranian involvement in the renewed fighting.

The PUK and Tehran both denied any Iranian involvement.

In Washington, the State Department called on both Iran and Iraq not to intervene. "We are calling on both the PUK and the KDP to end the fighting," said Mr Nicholas Burns, the state department spokesman. "We hope both Iran and Iraq will stay out of the fighting."

Attention focused yesterday on whether the PUK would try to retake Arbil, a move which, if successful, would deal a blow to Mr Saddam.

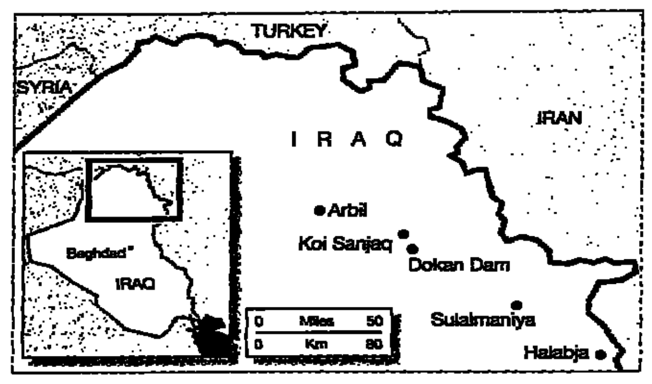
An attempt to take the town could, however, force the KDP to ask for Iraqi assistance once again in a replay of last month's intervention. So far, Iraq's reaction has been contained.

The revolutionary command council on Sunday called on the Kurdish factions to keep away from foreign powers and start talks in Baghdad.

Moreover, although Iran stayed on the sidelines last month, analysts say the risk of more active Iranian involvement in this round cannot be ruled out.

Mr Latif Rashid, PUK representative in London, said yesterday that the discussion within the party was not centred on retaking Arbil.

"Iraqi troops and tanks are well entrenched 10km from Arbil," he said. But the move is not dismissed by analysts, who suspect the PUK may decide to proceed as long as it sees its rival's defences disintegrating.



Another course of action is for the rejuvenated PUK to attempt to negotiate with the KDP based on the new balance of power in the north. This is where analysts look to the US, which has for years attempted to reconcile the two Kurdish parties, to play an active role.

After requesting Mr Saddam's help last month, Mr Massoud Barzani, the KDP leader, has been attempting to distance himself from the Iraqi regime.

He has already held discussions with Mr Robert Pelletreau, the US undersecretary of state for the near-East, in Ankara. Further talks are scheduled this week in Washington. Mr Barzani is seeking assurances of US support to escape from Baghdad's grip. The US however, wants Mr Barzani's help in protecting people working for US agencies in the Kurdish area and in restarting negotiations between the two factions.

INTERNATIONAL NEWS DIGEST

Taliban foes take stock

Afghan leaders resisting the Taliban Islamic militia met yesterday to discuss tactics as they fight back towards Kabul, the capital. Gen Ahmad Shah Massoud, former Afghan government military chief and Gen Abdul Rashid Dostum, the northern ethnic Uzbek leader, held talks in a trailer surrounded by snow-capped peaks at the strategic Salang pass where the once-unstoppable Taliban have been turned back.

Earlier, the Taliban government conceded it had lost the northern frontline town of Jabal os-Siraj and was fighting ousted government forces around Bagram airbase, an hour's drive north of Kabul.

The Taliban captured Kabul on September 27 and pushed north to bottle up Gen Massoud's forces in his Panjshir valley stronghold. But Gen Massoud's battle-hardened guerrillas have pushed the Taliban most of the way back to the capital in the past two days. General Said Jasser Naderi, a senior member of Gen Dostum's forces, said that so far Gen Dostum's backing for Gen Massoud had been logistical. *Reuter, Salang Pass*

ILO cuts SA jobless estimate

Unemployment in South Africa is far lower than the 33 per cent rate commonly stated, the International Labour Organisation said in a report yesterday. It added that measures to "price workers into jobs" risked worsening the country's severe problems of poverty and inequality.

The report, prepared for the South African government, said that, on international definitions, unemployment was probably about 20 per cent. Suggestions by South African business groups that unemployment was more than 30 per cent and rising were "completely wrong", Mr Guy Standing, an ILO senior economist and chief author of the report, said yesterday.

The high figure is based on an extrapolation from outdated or inadequate statistics that systematically underestimate employment and exaggerate the numbers out of work, Mr Standing said.

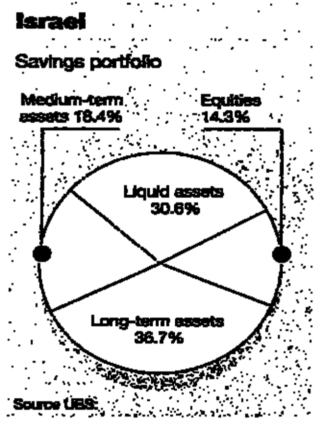
The report, whose conclusions have been broadly accepted by the Mandela government, argued that new jobs were being generated by the revival in economic activity since 1994, contrary to widespread pessimism about "jobless growth". South Africa's labour market was "highly flexible by international standards," it said.

The ILO warned against policies to reduce unemployment that could worsen poverty and inequality, for instance by lowering the wages of new entrants to the labour market. Income inequality and wage differentials in South Africa were among the highest in the world. *Frances Williams, Geneva*

Restructuring the labour market: The South African challenge, by Guy Standing, John Sender and John Weeks. ILO Publications, CH-1211 Geneva 22, SFr45.

Israel savings tax reform runs into trouble

By Judy Dempsey in Jerusalem



Israel's finance ministry was yesterday on a collision course with the government and the central bank after Mr Dan Meridor, the finance minister, failed to push through a package of capital market reforms.

The reforms, drawn up by Mr David Brodet, director general at the finance ministry, are aimed at opening up the capital markets through lowering taxes on dividends from 25 per cent to 15 per cent and those on the interest on index-linked bonds from 35 per cent to 10 per cent.

But the main proposal – to encourage savers to switch from short-term to long-term deposits through introducing a minimum 5 per cent tax on interest on the former – was rejected by the government and the Bank of Israel.

Mr Benjamin Netanyahu's conservative Likud-led coalition considers any tax on short-term savings as an unpopular measure while the Bank of Israel believes that such a tax increase would drive the small investor out of savings into consumption, creating more inflationary pressures and swelling the current account deficit.

Inflation this year is expected to reach 11 or 12 per cent compared with last year's 8.1 per cent while the current account deficit is forecast to increase from less than $4bn last year to between $4bn and $5bn, or 4.7 per cent of gross domestic product by the end of the year.

"The Brodet proposals contain very good recommendations that should help improve and broaden our capital markets," Mr Jacob Frenkel, governor of the Bank of Israel, said yesterday. "But in the short term it is essential the government budget promotes long-term sustainability ... and even better, if the government finds the resolve to recommend ever deeper budget cuts," he added.

Mr Meridor wants to trim the budget deficit by at least Shk4.9bn ($1.5bn) for next year as he is expecting it to reach Shk12bn, or 4 per cent of GDP this year, above the legally permitted deficit limit for 1996, or 2.5 per cent of GDP. Mr Netanyahu supports such measures but is beholden to a fragile coalition which is loath to accept further cuts.

More than Skh13bn has been redeemed from provident funds, or long-term savings, since the beginning of the year after weakening bond prices undermined the performance of these funds. Last year, they offered an average return of only 3 per cent.

The scale of the redemptions increased pressure on the government to finance investments through borrowing on international markets. "This was creating more pressure on the deficit as well as fuelling consumption," a finance ministry official said. "That is why we want to win back confidence to long-term savings through tax incentives," he added.

The fate of the reforms hangs in the balance. The government, finance ministry and Bank of Israel will try to seek a compromise by the end of the month. "Any measures must be coupled with tackling the budget deficit," insisted a Bank of Israel official. "That is our principle," he added.

Prices for electricity determined for the purposes of the electricity pooling and settlement in England and Wales.

UK hour period ending	Pool purchase price £/MWh	Pool selling price £/MWh
0030	11.70	9.84
0100	11.70	11.87
0130	11.70	11.87
0200	11.70	11.87
0230	11.70	11.87
0300	11.70	11.87
0330	11.70	11.87
0400	11.70	11.87
0430	11.70	11.87
0500	11.70	9.03
0530	11.70	9.03
0600	11.70	9.03
0630	11.71	9.04
0700	[illegible]	[illegible]
0730	[illegible]	[illegible]
0800	[illegible]	[illegible]
0830	[illegible]	[illegible]
0900	[illegible]	[illegible]
0930	[illegible]	[illegible]
1000	[illegible]	[illegible]
1030	[illegible]	[illegible]
1100	[illegible]	[illegible]
1130	[illegible]	[illegible]
1200	[illegible]	86.17
1230	[illegible]	81.77
1300	[illegible]	73.29
1330	[illegible]	38.05
1400	[illegible]	31.18
1430	[illegible]	28.46
1500	[illegible]	27.74
1530	[illegible]	29.56
1600	[illegible]	37.43
1630	[illegible]	56.98
1700	[illegible]	63.05
1730	[illegible]	56.23
1800	[illegible]	40.17
1830	[illegible]	23.15
1900	[illegible]	11.60
1930	[illegible]	15.14
2000	[illegible]	32.34
2030	[illegible]	42.25
2100	[illegible]	37.88
2130	[illegible]	20.93
2200	[illegible]	17.67
2230	[illegible]	14.98
2300	[illegible]	14.92
2330	[illegible]	14.73
2400	[illegible]	9.84

INTERNATIONAL ECONOMIC INDICATORS: **MONEY AND FINANCE**

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

■ UNITED STATES / ■ JAPAN / ■ GERMANY

	US Narrow Money (M1)	US Broad Money (M2)	US Short Interest Rate	US Long Interest Rate	US Equity Market Yield	Japan Narrow Money (M1)	Japan Broad Money (M2+CDs)	Japan Short Interest Rate	Japan Long Interest Rate	Japan Equity Market Yield	Germany Narrow Money (M1)	Germany Broad Money (M3)	Germany Short Interest Rate	Germany Long Interest Rate	Germany Equity Market Yield
1986	13.5	8.1	6.49	7.67	3.43	6.9	8.2	5.12	5.35	0.84	9.9	7.3	4.64	5.90	1.79
1987	11.6	6.5	6.82	8.39	3.12	10.5	11.5	4.15	4.64	0.55	9.0	7.3	4.03	6.14	2.21
1988	4.2	5.4	7.65	8.84	3.61	8.4	10.4	4.43	4.77	0.54	9.8	6.4	4.34	6.46	2.61
1989	1.0	4.2	8.99	8.50	3.43	4.1	10.6	5.31	5.16	0.48	6.3	5.7	7.12	6.90	2.22
1990	3.6	5.5	8.06	8.55	3.60	2.6	8.5	7.62	6.90	0.64	4.5	4.5	8.49	8.66	2.11
1991	6.0	3.7	5.87	7.86	3.21	5.2	2.0	7.21	6.40	0.75	5.1	5.6	9.25	8.42	2.38
1992	12.4	2.0	3.75	7.00	2.95	4.5	-0.4	4.28	5.24	1.00	7.1	8.2	9.52	7.80	2.45
1993	11.6	1.2	3.22	5.86	2.78	3.0	1.4	2.83	4.18	0.87	9.4	7.9	7.28	6.47	2.11
1994	6.2	1.4	4.67	7.08	2.86	5.4	2.9	2.12	4.20	0.78	9.6	9.0	5.36	6.86	1.77
1995	-0.3	2.0	5.93	6.57	2.61	8.2	3.2	1.12	3.39	0.86	3.7	0.0	4.53	6.82	2.00
3rd qtr.1995	-0.7	2.8	5.79	6.32	2.53	8.6	2.8	0.66	3.05	0.86	3.2	-0.7	4.41	6.68	1.98
4th qtr.1995	-1.8	3.9	5.73	5.89	2.38	12.9	3.2	0.43	2.88	0.81	4.9	1.3	4.01	6.32	2.02
1st qtr.1996	-2.4	5.1	5.30	5.89	2.21	15.5	3.1	0.49	3.16	0.76	9.5	5.4	3.45	6.17	1.88
2nd qtr.1996	-2.4	5.2	5.42	6.70	2.18	15.7	3.8	0.49	3.24	0.72	10.5	7.3	3.33	6.47	1.87
October 1995	-1.5	3.6	5.81	6.03	2.46	12.1	2.7	0.41	2.89	0.83	4.0	0.4	4.09	6.55	2.04
November	-1.7	3.8	5.74	5.93	2.42	13.9	3.4	0.44	2.88	0.83	4.4	1.0	4.01	6.32	2.04
December	-2.1	4.2	5.63	5.71	2.24	12.8	3.2	0.42	2.66	0.77	6.3	2.5	3.94	6.07	1.97
January 1996	-2.6	4.5	5.42	5.64	2.26	14.7	3.1	0.45	3.10	0.75	8.2	3.7	3.62	5.90	1.88
February	-2.6	4.9	5.15	5.81	2.17	15.7	2.8	0.50	3.19	0.75	9.7	5.9	3.35	6.18	1.86
March	-1.9	5.8	5.31	6.26	2.19	16.1	3.1	0.51	3.18	0.77	10.6	6.7	3.36	6.44	1.91
April	-2.4	5.6	5.38	6.50	2.20	15.3	3.0	0.49	3.23	0.72	10.6	7.1	3.33	6.39	1.88
May	-2.5	5.1	5.40	6.72	2.19	15.5	3.3	0.52	3.28	0.71	10.4	7.5	3.29	6.45	1.87
June	-2.4	4.7	5.43	6.90	2.17	16.3	3.8	0.46	3.19	0.73	10.4	7.2	3.38	6.57	1.88
July	-3.2	4.3	5.50	6.85	2.16	14.3	3.7	0.55	3.27	0.71	11.3	7.8	3.38	6.48	1.82
August	-3.9	4.1	5.53	6.62	2.23	14.1	3.7	0.53	3.14	0.75	10.8	8.2	3.29	6.30	1.84
September	-4.2	4.0	5.42	6.94	2.21					0.78					1.82

■ FRANCE / ■ ITALY / ■ UNITED KINGDOM

	France Narrow Money (M1)	France Broad Money (M3)	France Short Interest Rate	France Long Interest Rate	France Equity Market Yield	Italy Narrow Money (M1)	Italy Broad Money (M2)	Italy Short Interest Rate	Italy Long Interest Rate	Italy Equity Market Yield	UK Narrow Money (M0)	UK Broad Money (M4)	UK Short Interest Rate	UK Long Interest Rate	UK Equity Market Yield
1986	6.9	6.4	7.79	8.36	2.65	10.5	8.4	13.25	11.47	1.41	4.0	15.4	11.02	10.21	4.35
1987	4.1	11.5	8.63	9.46	2.75	10.4	9.6	11.32	10.58	1.94	4.7	15.2	9.77	9.69	3.80
1988	3.9	8.3	7.94	9.08	3.69	7.8	8.5	11.24	10.54	2.71	6.8	17.3	10.41	9.62	4.48
1989	7.5	10.0	9.40	8.79	2.88	7.1	9.3	12.42	11.61	2.46	5.9	17.6	13.96	10.11	4.36
1990	3.8	9.3	10.32	9.92	3.19	9.3	10.1	11.98	11.87	2.84	5.3	16.1	14.82	11.56	5.07
1991	-4.9	2.4	9.62	9.03	3.58	7.3	8.5	11.83	13.20	3.45	2.4	7.9	11.58	10.08	4.97
1992	-0.2	5.4	10.36	8.57	3.55	6.7	7.7	13.86	13.29	3.63	2.4	5.1	9.74	9.09	4.91
1993	1.6	-2.2	8.55	6.75	3.21	4.6	7.4	10.22	11.23	2.35	4.9	3.5	5.99	7.40	4.01
1994	2.9	0.7	5.84	7.21	2.99	6.6	5.1	8.48	10.56	1.67	6.4	5.0	5.57	8.01	3.94
1995	8.8	4.7	6.60	7.53	3.17	0.6	0.6	10.38	12.22	1.72	6.0	7.2	6.77	8.16	4.15
3rd qtr.1995	3.3	5.3	6.12	7.35	3.11	0.0	0.5	10.52	11.79	1.64	5.6	8.3	6.87	8.09	4.09
4th qtr.1995	8.8	4.7	6.14	7.10	3.25	0.9	2.1	10.60	11.59	1.77	5.6	9.4	6.71	7.77	4.04
1st qtr.1996	7.8	3.4	4.47	6.55	3.10	-1.0	2.3	9.88	10.57	1.74	5.7	10.1	6.28	7.72	4.15
2nd qtr.1996	7.7	0.8	3.96	6.51	3.02	-0.9	3.5	9.01	9.89	2.24	6.5	9.9	6.06	8.06	4.08
October 1995	0.0	3.1	6.89	7.47	3.30	0.5	1.6	10.69	11.94	1.76	5.2	9.0	6.81	8.09	4.04
November	2.2	4.0	5.90	7.06	3.26	0.5	2.0	10.62	11.64	1.81	5.7	9.4	6.73	7.76	4.05
December	8.8	4.7	5.60	6.76	3.25	1.6	2.6	10.53	11.18	1.74	5.9	9.8	6.57	7.46	4.04
January 1996	5.7	4.1	4.70	6.44	3.19	0.4	2.6	10.37	10.47	1.66	5.4	10.5	6.45	7.41	4.19
February	4.8	3.0	4.42	6.58	3.04	-1.4	2.3	9.56	10.54	1.67	6.2	10.0	6.24	7.72	4.06
March	7.8	3.4	4.27	6.64	3.08	-2.1	2.1	10.00	10.71	1.90	5.6	9.8	6.14	8.05	4.19
April	4.5	1.9	4.00	6.51	3.01	-1.9	2.5	9.91	10.35	2.14	5.7	10.0	6.09	8.05	4.02
May	6.2	1.9	3.90	6.46	2.98	-0.9	3.6	8.81	9.72	2.19	6.4	9.6	6.12	8.09	4.08
June	7.7	0.8	3.98	6.56	3.01	-0.1	4.3	8.87	9.69	2.32	7.4	9.9	6.12	8.05	4.12
July	4.6	-0.1	3.84	6.45	3.02	0.4	4.1	8.56	9.45	2.37	7.1	9.0	5.87	7.86	4.15
August			3.96	6.35	3.18	1.3	4.1	8.56	9.50	2.46	7.4	8.5	5.81	7.79	4.16
September					3.24			8.53		2.56	7.0		5.81	7.88	4.08

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Interest rates: short-term, period averages of US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-lira, UK – 3-month Libor; long-term, period average yields on 10-year benchmark government bonds. Interest rates supplied by Datastream. Equity market yield: period averages of the gross dividend yield on the relevant FT-A world index.

NEWS: WORLD TRADE

British producers at odds with other Europeans in their pursuit of cheaper imports

UK call to scrap EU aluminium tariff

By Kenneth Gooding, Mining Correspondent

British aluminium producers have broken ranks with other European producers by calling for an end to the 6 per cent tariff charged on about 60 per cent of the aluminium imported by European Union countries.

The UK producers, which are more competitive than their European counterparts, are against the protection accorded by the tariff structure. UK producers say European packaging, automotive and aircraft industries – major users of aluminium – are being denied access to lower cost semi-fabricated products because of the tariff, and this makes it more difficult for them to compete in their global markets. "This has serious implications for future growth in a broad range of EU manufacturing industries," the UK producers have told the British government.

The producers want the government to raise the issue at the World Trade Organisation ministerial conference in Singapore in December. They suggest the EU could suspend the duty on aluminium under article 28 of the Rome Treaty. Justification would be "to exploit the full manufacturing capacity of the European aluminium industry and to stimulate world competitiveness in EU manufacturing industries."

The UK group, led by British Alcan, a wholly-owned subsidiary of Alcan of Canada, points out that last year the EU imported 2.7m tonnes of primary aluminium or 55 per cent of the 4.8m tonnes consumed. Imports are likely to grow because EU production of aluminium is expected to fall because of increased energy costs and environmental constraints.

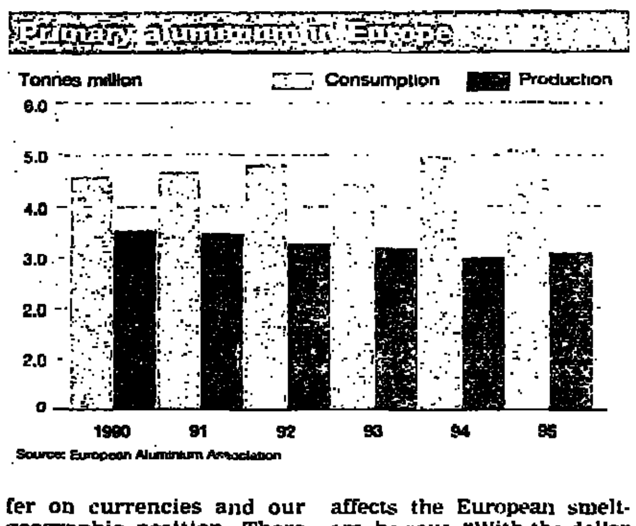
The British producers say that fewer than 20,000 of the 200,000 employed in the European aluminium industry are involved in the production of primary metal. "Over 90 per cent of employees are in the downstream semi-fabricating sector which, in order to realise its capacity, to grow and achieve competitiveness in world markets, needs uniform access to low cost raw materials. In semi-fabricated products the cost of metal represents over 50 per cent of total product costs."

The European Aluminium Association continues to defend the 6 per cent tariff. Mr Bernard Legrand, chairman, says: "It is a partial but fair buffer to help compensate the European industry for the disadvantages we suffer on currencies and our geographic position. There could be irreversible harm to the European industry if it was removed."

As aluminium is universally priced in US dollars, any change in the dollar rate affects the European smelters, he says. "With the dollar at its present level, 20 per cent of European capacity has costs above the US smelters' costs." Yet the US industry still has to go through a modernisation process. In Europe 22 smelters have closed in the past 15 years. "France produces the same amount of metal in four plants today as it did from 12 some 15 years ago."

Mr Legrand said that Europe's geographic position made it the target for exports from the former eastern Europe and the Gulf aluminium producers. "The 6 per cent helps to compensate for that."

Gulf producers are also pressing for removal of the tariff by an area that accounts for about 20 per cent of the global market. Mr Ian Rugeroni, chief executive of Dubai Aluminium, says the Gulf produces high quality metal from smelters with the highest environmental standards. His company would soon develop beneficial business partnerships with EU fabricators if the tariff were removed.



Source: European Aluminium Association

Seoul opens building market to foreigners

By John Burton in Seoul

South Korea is to allow five foreign building companies to compete for contracts – the first breach of its protected construction market.

The foreign companies granted licences yesterday include Bechtel International and Fluor Daniel of the US, Singapore-based Bovis Asia Pacific, Fujita of Japan, and China State Construction Engineering.

Bechtel, Fluor Daniel and Bovis are expected to compete for the contract to build a $400m passenger terminal for the new international airport at Inchon, near Seoul.

Korea promised to open its construction market to foreign competition as a condition for entry into the World Trade Organisation.

The foreign companies will be allowed to bid for big public sector projects from early next year. Korea has embarked on a massive infrastructure programme, including the construction of a new airport, railways, roads and port facilities.

Foreign construction inspectors have been allowed to operate in South Korea since last year following the introduction of measures to improve domestic construction procedures in the wake of several accidents.

The entry of foreign building companies could lead to a shake-up of the overcrowded domestic construction industry, whose reputation has been damaged by several recent building disasters, including the collapse of a bridge and department store in Seoul.

The government also recently announced that a high-speed railway between Seoul and Pusan would be delayed by up to four years because of shoddy construction work. Following the disasters, the government announced several measures to eliminate substandard construction. Improved procedures for screening were introduced and the lowest bid system was abolished in favour of selection on technical capability. The government also increased estimates for labour and wage costs in construction proposals.

Other measures included tighter regulation of subcontracting and an increase in the warranty period for construction projects from five years to 10-20 years.

Korean construction companies have generally enjoyed a good reputation abroad, where they are subject to tighter inspection standards.

South-east Asia is the biggest market for Korean builders at $3.75bn for 1995, with Malaysia the single biggest customer at $1.24bn. Europe and the Middle East were the next biggest customers at $603m and $501m respectively.

US in deal on tomato imports from Mexico

By Christopher Parkes in Los Angeles

A provisional agreement to fix a minimum price for Mexican tomato imports to the US has soothed Florida's powerful farm lobby, but raised fears in other states that their southbound agricultural trade may suffer.

Arizona, the most important entry point for the shipments, and other regions which yearly send $5bn-worth of US agricultural produce to Mexico, are concerned they may lose business.

The Mexican government issued a statement complaining of US heavy-handedness which led to the deal, and again rebutting claims that its farmers' exports were driving Florida's growers out of business.

Despite a recent investigation's findings that Mexican imports did not harm US growers, Washington chose to seek a settlement to a dispute which appeared to threaten President Bill Clinton's chances of electoral success in Florida.

The agreement, signed late last week, and which sets a floor price of 21 cents per pound, also suspends an anti-dumping inquiry demanded by Florida, which could have had a wide-reaching impact on dealings between the North American Free Trade Agreement partners. Mexico exports an estimated $3bn of fresh farm produce to the US annually.

Imposition of anti-dumping levies and possible retaliation by Mexico was the outcome most feared in other US states. Despite the frosty reception south of the border, Mexican diplomats in the US said the settlement was encouraging because it opened up the prospect of negotiated agreements on other areas of friction. One especially sore point is a ban on imports of avocadoes, which has been in force for more than 80 years, and which is stoutly defended by Californian growers who provide 95 per cent of all US consumption.

The Department of Agriculture is reviewing the ban, which its proponents say protects US farmlands from medfly and other pests and diseases which are allegedly widespread in Mexico.

Mexico, which has become an important customer for US farm equipment in the past few years, is cranking up its agricultural output. Aided by lower production costs and new techniques, which have improved quality, its exports and ambitions have developed quickly.

Mexico now supplies 41 per cent of US tomato consumption, against Florida's 45 per cent.

Mainly helped by the plunge in the peso's value, US imports of Mexican tomatoes rose 30 per cent last year.

WORLD TRADE NEWS DIGEST

Mahathir urges cut in imports

The main focus of Malaysia's budget for 1997 will be to reduce "unnecessary" imports and bring down the nation's stubborn current account deficit, Dr Mahathir Mohamad, the prime minister, said yesterday. This would represent a departure from Malaysia's broad policy of gradually eliminating trade barriers in line with its regional free trade commitments.

Dr Mahathir did not give details on which imports have been deemed unnecessary in the budget scheduled to be unveiled by Mr Anwar Ibrahim, finance minister and deputy prime minister, on October 25. "People should be persuaded either through tax incentives or through other means, not to spend money on imported goods when there are local goods available," Dr Mahathir said.

He said the measures did not amount to a "boycott" of some foreign goods. Economists said goods classified as unnecessary were likely to include luxury cars, designer clothes and furniture, alcohol and other consumer objects. Many of these are already subject to high tariffs. In the first seven months, Malaysia's merchandise trade deficit was M$1.4bn ($559m), against M$6.9bn for the same period a year ago. *James Kynge, Kuala Lumpur*

WTO declaration push

World Trade Organisation members yesterday agreed to intensify their efforts to meet a November 7 deadline for formal agreement on a draft declaration to be made by ministers when they meet in Singapore in December.

Progress on the declaration has been slow because of a deep rift in the organisation over the inclusion of so-called "new issues" on the Singapore agenda. Trade diplomats are due to hold consultations tomorrow and Thursday to find an acceptable compromise, and a high-level meeting has been called for November 2 to endorse the draft declaration informally.

The five areas of contention relate to what if anything ministers should say about labour standards, investment, competition policy, bribery in government procurement and WTO rules – including those relating to anti-dumping – in the light of the globalising world economy. In all these areas except WTO rules, which is a Hong Kong initiative, a core group of developing countries led by India and Malaysia is blocking proposals for future WTO work. The Hong Kong proposal has been opposed by the US which does not want to reopen a contentious debate on its anti-dumping legislation. *Frances Williams, Geneva*

IBM in S Korea joint venture

LG Electronics is expected to announce today a $30m joint venture with IBM to produce and market personal computers in South Korea. The venture, in which IBM will hold a 51 per cent stake, is meant to improve the US computer maker's access in the Korean market, while upgrading the technology of LG's computers.

LG said it hoped that the alliance would help it to become South Korea's top personal computer company. LG now ranks third behind Samsung and Trigem in the fast-growing computer market, with sales of 2m units this year. The joint venture will use LG production lines to make computers, and later plans to produce IBM computers on its own lines.

LG will continue to make its own PC brands for the export market and hand over its domestic operations to the IBM joint venture. *John Burton, Seoul*

NEWS: ASIA-PACIFIC

Rise in HK boat people alarms UK

By Jeremy Grant in Hanoi

A sharp rise in the number of Vietnamese taking to the high seas in vessels bound for Hong Kong in the last two months has sparked British concerns of a fresh exodus of boat people. This could cloud the smooth repatriation of migrants left in camps eight months before the British colony is handed back to China.

Since the beginning of this year, between 800 and 900 Vietnamese from the northern port city of Haiphong and surrounding Quang Ninh province have landed in Hong Kong, according to estimates by the United Nations High Commissioner for Refugees (UNHCR).

That figure equals the total number of boat people who arrived in Hong Kong between 1991 and 1995.

Unlike the waves of migrants who fled Vietnam in the years following the Communist victory in 1975, the new boat people are job-seekers, armed with false work papers and pre-arranged jobs on Hong Kong building sites, where pay prospects are higher than back home.

In the first 10 days of this month alone, 100 illegal immigrants were intercepted by police as they disembarked on Hong Kong's shores. In some cases, Vietnamese workers are smuggled across the Chinese border before boarding boats in Chinese waters as a way of avoiding the Vietnamese navy.

"We have expressed concern on more than one occasion to the Vietnamese government about the rather worrying increase in new departures and we've received assurances that they will take appropriate measures," said the British embassy in Hanoi yesterday.

The development comes as the saga of the region's boat people is drawing to a close. In the last three months south-east Asian nations have been forcing asylum seekers in their camps back to Vietnam after the UNHCR cut all funding for them.

British concerns centre on the roughly 12,000 boat people remaining in camps in Hong Kong. China has said it wants to see them emptied before it resumes sovereignty over Hong Kong at midnight on June 30 next year. British and Hong Kong officials say they are confident they can clear the camps by then.

Britain is understood to be keen to avoid leaving a potentially embarrassing legacy of illegal Vietnamese workers in Hong Kong after working hard to clear the camps.

Last week, Hanoi was conducting "information campaigns" in Haiphong newspapers, designed to discourage people from leaving.

But some say this is unlikely to have much effect as rumours of riches in Hong Kong have already taken hold in Haiphong.

"The problem is that it isn't just a rumour. Some people have come back with a considerable amount of money and the money's supporting the rumour," said one official involved in refugee issues.

Japanese ponder poll candidates

Political realignments have blurred voter choice. Michiyo Nakamoto reports

JAPANESE ELECTIONS
October 20

Tokyo housewife Mrs Mariko Takishima says she has always voted – but "always for the least objectionable candidate". She is still not sure who that is, but will have to make up her mind by Sunday, when Japan votes in a parliamentary general election. Her husband, Mr Hisamitsu Takishima, an insurance agent, also admits that he is still at a loss over which party to support. "I am thinking about voting for a Communist as the only remaining option," he says.

The predicament that Mr and Mrs Takishima face is shared by many Japanese as they prepare to cast their votes for members of the Diet, the lower house of parliament.

The frenetic realignment of parties that has characterised Japanese politics in the past several years has blurred the distinction between the country's main political parties whether in government or in opposition.

The Takishimas, who live in Higashi Kurume, a leafy suburb of Tokyo about 40 minutes by express train from the city centre, often discuss politics together and have very clear political views.

Their vision is of a caring, peace-loving, environmentally conscious and more democratic government that genuinely reflects the views of the people.

"There are some basic things I can't compromise on such as the constitution, the Self Defence Forces and nuclear energy," says Mr Takishima.

He is strictly opposed to the imperial system and a strong Self Defence Force and would like to see the US-Japan Security arrangement gradually eased and public spending on defence reduced. "We believe that it is impossible to protect peace with force. That is an illusion," explains Mrs Takishima.

The couple would like the public to have a more direct influence over policy decisions through referendums.

But the Takishimas are doubtful whether any of today's politicians can bring about the kind of responsible government they seek.

In contrast, Mr Takashi Hashizume, and his wife, Yasuyo, are sure that Mrs Yuriko Ono, who is running for the opposition New Frontier Party, is the best possible choice.

Mr and Mrs Hashizume, both 36, live with their two daughters in the same constituency as the Takishimas.

Hisamitsu and Mariko Takishima: Mrs Takishima says she has always voted for the least objectionable candidate *Reuter*

Unlike the Takishimas, who distrust any connection between religion and politics, the Hashizumes are dedicated members of the Soka Gakkai, a modern Buddhist organisation with a wide following that has advised its members to support the NFP in proportional representation, and plan to vote for Mrs Ono, also a Soka Gakkai member.

For Mrs Hashizume, the choice of Mrs Ono, whom she has known for many years through the Soka Gakkai, was a natural one.

"She knows my mother and asks after her. She has also done a lot to support changes from the point of view of the housewife, so I have a lot of confidence in her," Mrs Hashizume stresses.

Like the Takishimas, Mr Hashizume believes Japan must recognise its responsibility in the second world war. "[It] was a war of aggression, no matter how you look at it," he says.

The Hashizumes are also opposed to building military strength and spending money to bail out failed financial institutions or support a bloated bureaucracy.

On the planned rise in consumption tax from 3 to 5 per cent – about the only hot issue in the election – both couples are enraged by the lack of any government effort to cut costs or provide a convincing explanation for why the tax has to be raised.

But most strikingly, as different as their final decisions are likely to be, both couples feel that their choice of candidates will be one of a process of elimination in search of a responsible government that more directly reflects the will of the people.

"The LDP not only did not do anything, they made things worse. The Socialists outraged many people by tying up with the LDP while the Communists are so behind the times they are out of the question. So the reason why we are placing our hopes on the NFP is because they seem to be serious about doing something," says Mr Hashizume, who points out that he is not necessarily an NFP supporter.

Like many Japanese voters, the Takishimas and the Hashizumes will be casting their votes on Sunday in the hope that amid the broken promises and shifting policies, some politicians are truly committed to bringing about effective change.

Feud in Ninja toy family

By John Ridding in Hong Kong

The Teenage Mutant Ninja Turtles – the unlikely heroes behind one of the biggest toy crazes of the past decade – would find it hard to produce a drama to match the family feud at its Hong Kong distributors.

At Playmates Toys, which rose to riches on the backs of the pizza-eating reptiles, two sons of the founder are slugging it out in the territory's High Court in a battle that will determine the company's destiny.

Mr Albert Chan, the eldest son of Mr Chan Tai-ho, has lodged a petition to wind up Chansam Investments, the family-controlled parent company of Playmates Toys and its associate, Prestige Properties. He is opposed by his younger brother, Thomas, managing director of Playmates and Prestige.

The dispute provides a compelling cautionary tale for Hong Kong, where families and businesses remain closely intertwined and relatives can prove a business risk.

For the company, the row compounds the difficulties of adjusting to life after turtlemania. Although the first half of this year saw a return to profit after a loss of HK$98m ($12.67m) in 1995, the net result of HK$39m was a far cry from the heady days of 1989, with profits of HK$1.2bn.

Behind the sibling rivalry lies a trail of corporate tussles and the fact that Albert was ousted from the boards of the listed companies in favour of his younger brother – a grievance in Chinese society where the eldest son usually carries sway. The conflict has escalated since May when Albert launched a campaign to fight his way back onto the boards of Playmates and Prestige. Representatives of Albert attacked his brother's management at shareholder meetings, wrote letters of complaint to the stock exchange and threatened injunctions to block restructuring.

The reasons for the winding up petition are uncertain, although it may be intended to divide up the corporate assets and provide Albert with cash. What is clear is that the case is set to drag on and to drain the family members' financial resources.

Seoul seeks bank mergers

By John Burton in Seoul

South Korea yesterday promised to try to accelerate financial liberalisation following the approval of its entry into the Organisation for Economic Co-operation and Development.

The government recommended measures to encourage mergers and acquisitions among the nation's 25 commercial banks in an attempt to strengthen the sector ahead of market liberalisation. Increased competition from foreign lenders could cause problems for the banks, which suffer from a heavy burden of non-performing loans.

The government proposed reducing taxes on bank mergers to promote industry consolidation. It is also seeking powers to force mergers among insolvent financial institutions.

Officials also promised to cut high interest rates, now pegged at 12 per cent, to at least 9 per cent by 1998.

This would bring closer the full opening of the bond market to foreign investors and the abolition of controls on overseas borrowing by South Korean companies.

South Korea promised to implement these reforms once the gap between domestic and foreign interest rates narrowed to 2 percentage points from the 6-7 percentage points now.

The central bank is expected to cut the reserve requirement ratio for banks this month to help drive down interest rates.

The banks are also expected to reduce foreign currency lending rates next month since OECD membership will lower borrowing costs for South Korea in overseas capital markets.

Meanwhile, the two main opposition parties yesterday again threatened to block ratification of the OECD agreement in the National Assembly next month.

They claimed that Seoul's entry into the OECD is "premature" since financial liberalisation could further destabilise the economy, which has suffered a downturn this year.

CORRECTION

Japan election

In the table accompanying the report in the Financial Times of October 12/13 about the election campaign of Mr Ryutaro Hashimoto, the Japanese prime minister, his placing in previous elections in the constituency and that of his rival, Mr Mutsuki Kato, were transposed.

ASIA-PACIFIC NEWS DIGEST

Two charged at Vietcombank

The former head of Vietcombank, Vietnam's biggest bank, and his deputy face criminal charges linking them to fraud allegations surrounding a Communist party venture, the official Lao Dong (Labour) newspaper says. Mr Nguyen Van De, former general director of Vietcombank, and first deputy director Nguyen Duy Loc have been charged with "irresponsibility causing serious consequences", Lao Dong declared. They had arranged loans to Tamexco, a party venture based in the former Saigon, the newspaper added.

The former director of Tamexco, Mr Pham Huy Phuoc, allegedly misappropriated the money, using it to buy his girlfriend a house worth $200,000, gamble in Macao and send friends on overseas trips; total losses were said to have amounted to $46m. Mr De is also alleged to have arranged a meeting between Mr Phuoc and a central bank official to arrange a $8.7m loan to Tamexco by FirstVina Bank, a joint venture involving South Korea's Daewoo Group.

The disclosure comes a week after a court in Ho Chi Minh City sentenced an official at another bank to death for masterminding a Dong 49.2bn ($4.4m) bank fraud. This is the first time the death sentence has been used in a case of commercial fraud. *Jeremy Grant, Hanoi*

Thai finance minister quits

Thailand's finance minister, Mr Bodi Chunnananda, resigned yesterday, a move which stirred more turmoil in the country's battered financial markets but is unlikely to have a long-term impact. Mr Bodi was due to step down when a new government is formed after elections on November 17. Officials said his position might not even be filled, leaving the ministry in the hands of the permanent secretary, Mr Chatumonkol Sonakul, and acting deputy finance minister Mr Chaiyawat Wibulswasdi, on loan from the central bank.

A close ally of caretaker Prime Minister Banharn Silpa-archa, Mr Bodi had a tumultous four months in office, during which the Thai stock market lost 29 per cent of its value, the baht came under heavy speculative attack and the governor of the central bank resigned. Mr Bodi was also caught up in a conflict over the awarding of new commercial banking licences.

Mr Chatumonkol said the new domestic bank licences, along with permission for seven foreign banks to begin full branch operations, would not be given until a new finance minister was in place. *Ted Bardacke, Bangkok*

Bangladesh electricity offer

The government of Bangladesh has agreed to open the electricity generation industry to foreign investments. Local and foreign private-sector companies will be offered tax holidays as well as VAT and other tax exemptions on imported equipment. The decision follows worsening electricity shortages. The power ministry has been drafting a plan to introduce electricity rationing, with proposals to force shops to close early each evening.

Bangladesh's per capita power consumption of about 80KW is one of the world's lowest. Only 15 per cent of the population have access to electricity. Total daily supply from ageing generators is estimated at about 2,000MW, more than 10 per cent short of demand on an average day. Projections for the next few years show Bangladesh would need at least another 1,000MW daily generating capacity by the year 2000, requiring investments worth several billion dollars. *Kasra Naji, Dhaka*

Japan fund costs to fall

The cost of long-term funds for Japanese industry is to fall significantly, the country's top corporate lender, the Industrial Bank of Japan, anounced yesterday. From tomorrow, the bank said it would reduce its long-term prime lending rate, as charged to top corporate customers, from 3 to 2.7 per cent, the lowest since December. Other long-term lenders are expected to follow suit in the next few days. The reduction is likely to stimulate capital spending, Mr Paul Heaton, economist at Deutsche Morgan Grenfell, said in Tokyo.

The move comes as a consequence of a fall in interest rates on bank debentures, a big element in the cost of funds, since the end of August. Then, the Bank of Japan's latest quarterly report on the business outlook said the economic recovery was cooling. The reduction will also help to improve credit banks' competitiveness, enabling them to offer cheap long-term funding more closely linked to the BOJ's record low official discount rate of 0.5 per cent. *William Dawkins, Tokyo*

New Australia shares row

Australia's new Liberal-National coalition government was yesterday embroiled in new allegations about conflicts of interest after Mr John Moore, industry minister, acknowledged he still holds shares in a venture capital company. The Labor opposition claims this investment could benefit from ministerial decisions.

The furore came in the wake of the resignation of Senator Jim Short from the post of assistant treasurer at the weekend. Senator Short had approved a banking licence application from ANZ while retaining shares in the same bank. He claimed that this was an oversight. However, his eventual decision to step down means the first ministerial loss for the new government, which took office in March. *Nikki Tait, Sydney*

Gas threat to HK metro

Hong Kong police have drawn up security measures for the territory's subway train network after receiving a phone call threatening a gas attack, they said yesterday. "We have got a contingency plan to deal with this sort of situation; various government departments have been in touch so that if something goes wrong, we will be able to respond," deputy secretary for security Alex Fong said on government radio. A security branch official received the threatening call just before the weekend. Officials declined to comment on whether the threat was related to a dispute over Japanese and Chinese sovereignty claims to a group of East China Sea islands. *Reuter, Hong Kong*

Dole to make last-gasp bid for California

By Jurek Martin in Washington

Mr Bob Dole yesterday flew to California for tomorrow night's second televised debate with President Bill Clinton and, apparently, to make a last-ditch attempt to try to win the largest state.

A weekend strategy session headed by the Republican presidential candidate reportedly found Mr Dole's aides all but unanimous in recommending he should not abandon California, as President George Bush did in the final months of the 1992 campaign.

Mr Dole himself, according to a report in The New York Times, did not finally agree to their recommendation, which was partly based on encouraging news from the latest poll conducted by Mr Mervin Field, the dean of Californian polling.

It found Mr Dole had cut Mr Clinton's lead in half and was now only 10 points adrift in the state. California's 54 electoral college votes constitute the largest single prize on November 5, a total 270 electoral college votes are needed to secure the presidency. No Republican has become president this century without carrying California.

But the cost of pouring vital financial resources into advertising in California in the remaining three weeks of the campaign could be to reduce outlays in other pivotal states, particularly in the midwest, which Mr Dole also needs to win if he has any chance of becoming the next president.

Most analyses of state-by-state opinion show Mr Clinton comfortably ahead throughout the midwest, except Indiana, as well as in the north-east and, even allowing for the latest Field poll, the west.

Mr Dole's base in pursuit of electoral college votes is strongest in the prairies and parts of the south, but by most calculations he is still reasonably assured of little more than 100 votes in the college. By contrast Mr Clinton is reckoned to have well over 300 votes in the bag and with reasonable hopes of sharing the dozen or so which appear the most competitive at this stage.

Some of these include traditionally Republican states. One example is Virginia, which last voted for a Democratic presidential candidate in 1964, but where the latest poll published by the Richmond Times Despatch puts him nine points up.

Mr Clinton moved to counter a persistent Republican criticism by subjecting himself to a lengthy interview, printed yesterday, with Dr Lawrence Altman, the medical correspondent of the New York Times.

He admitted to chronic problems with allergies, hoarseness and weight control, but otherwise described his health as "very good" and noted he had only take one day off work through illness since becoming president. Some senior Republicans were disappointed Mr Dole and Mr Jack Kemp, his running mate, eschewed attacks on Mr Clinton in the first two debates.

Bob Dole with the mascot of a local Young Republicans group in Hamilton, New Jersey, at the weekend *Reuter*

Petrochemicals move shows up constraints on Zedillo

By Daniel Dombey in Mexico City

The Mexican government's decision to abandon the long planned privatisation of much of its petrochemicals industry is the latest and most important example of the growing economic policy constraints faced by the administration of President Ernesto Zedillo.

The planned privatisation of 61 state-owned plants producing secondary, or derivative, petrochemicals has been the biggest casualty to date of more open political opposition – much of it within his own Institutional Revolutionary party (PRI) – to economic reform.

The decision encouraged selling of the Mexican peso yesterday. It weakened to 7.765 to the dollar by midday, its weakest level for some nine months, in spite of positive trade figures which showed an unexpectedly high preliminary trade surplus for September of $601m. It closed at 7.675 on Friday and a week ago stood at 7.522.

It was a vote last month by the national assembly of the PRI opposing the privatisation that drove the final nail into the coffin of the privatisation. But it had long been difficult. It had previously been postponed by the government of President Carlos Salinas, which had privatised about $22bn of assets from 1988 to 1994, and delayed before by the current government. Ever since nationalisation in 1938, Mexico's oil industry has been one of its most potent national symbols.

The abandonment of the sell-off, which was estimated to raise some $1.5bn, is likely to delay significantly the full exploitation of the country's petrochemicals capability, according to industry specialists.

In light of the difficulties, government ministers have been stressing liberalisation as a means of modernising the economy, as much as privatisation. This reflects in part the success the Zedillo administration has had in liberalising long distance telecommunications and the distribution and transportation of natural gas.

Mr Jesús Reyes-Heroles, the Mexican energy secretary, said on Sunday that only minority stakes in the concerns would be sold, rather than the majority stakes previously indicated. In an interview, he acknowledged the possibility that some of the petrochemical assets would remain unsold.

However, at the same time, liberalisation measures would seek to encourage private investment in new projects. For example, new secondary petrochemical plants would no longer need a permit to be built.

He said there was $4.8bn of potential and real new investment in the wings for the industry, which because of government financial constraints had suffered from under-investment for 14 years. This included $1.1bn of Pemex investments that would be now be made by the private sector and a further $3.7bn in separate private projects already being studied or built.

However, while industry specialists acknowledged the sector's potential because of the plentiful ethane feedstock and the location, next door to the US, they said it was too early to say whether the potential would be fulfilled. Liberalisation would take longer than privatisation to exploit the potential, even with the fact that many of the existing petrochemicals plants are in poor condition.

"We do not know what the rules are going to be for private companies competing with majority state concerns for access to feedstocks, and access to the market," said one senior chemicals executive. "Until regulations for such things are clear, no one's going to be in a rush to invest."

Despite the problems with petrochemicals, the government is still moving ahead with privatisation of the railways, which in overall economic terms is regarded as significantly more important than petrochemicals.

The oil sell-off also had an inauspicious beginning with the abandonment last week of the first rail privatisation after the only bid failed to meet the preset minimum price. However, three companies are authorised to bid for the country's North-East Railway, Mexico's busiest line. The government hopes 95 per cent of the rail network will be in private hands by the end of next year.

Soyabean segregation rejected

By Alison Maitland

Unilever and Nestlé, two of Europe's largest food manufacturers, yesterday rejected segregation of genetically modified US soyabeans as impractical in spite of concern among food retailers that consumer choice is being put at risk.

The new soyabeans, developed by Monsanto, the US biotechnology company to be resistant to one of its herbicides, are being harvested in the US and exports are due to begin to Europe in the next two months.

EuroCommerce, the EU retailers' trade body, last week said the modified beans should be kept separate and only traditional beans be exported this year to give the EU food industry time to educate consumers and avoid a fresh food scare.

Soyabeans and their derivatives are used in about 60 per cent of processed foods.

Unilever, which was picketed in Germany last week by protesters from Greenpeace, said it was aware of the consumer choice issue. But the new soyabeans had been declared safe by EU regulatory authorities and were indistinguishable.

"In terms of the huge quantities wanted by companies such as ourselves, segregation [by the suppliers] is not economically viable," it said.

Against the grain, Page 12
Commodities, Page 28

Ortega 'ahead' in Nicaragua

A new poll at the weekend showed Mr Daniel Ortega, Nicaragua's former leftwing president, surging to a slight lead over his main challenger, conservative Mr Arnoldo Alemán of the Liberal Alliance, AP reports from Managua.

But the independent poll also found this Sunday's presidential election too close to call and said Mr Alemán seemed to have an edge among the 16.4 per cent of undecided voters.

It is the first national poll to put Mr Ortega, of the Sandinista National Liberation Front, in the lead, though the margin of error makes the result a statistical dead heat. Polls last week showed him leading in the capital, Managua.

The poll by CINCO, an independent research organisation, said Mr Ortega would get 36.7 per cent against 33.9 per cent for Mr Alemán. None of the other 21 presidential candidates got more than 4.1 per cent.

The poll showed a trend favouring the Sandinistas: Mr Alemán's share is down from 38.6 per cent in August, while Ortega's is up from 30 per cent. If no candidate gets more than 45 per cent of the vote, there will be a run-off in November between the top two.

The isolated Atlantic Coast region, which has about 10 per cent of the country's 2.4m eligible voters, was not polled.

Argentine 'mafias' condemned

Cavallo renews crime-link claim

By David Pilling in Buenos Aires

Mr Domingo Cavallo, former Argentine economy minister, may have been in New York on a speaking engagement yesterday, but it was in Argentina where he was making headlines.

Only 80 days after his surprise sacking, Mr Cavallo has returned to the political stage with fresh accusations of government links to organised crime and hints that he may run for Congress in next year's mid-term elections.

Mr Cavallo chose as his moment to renew attacks on Argentine "mafias" a week in which President Carlos Menem launched a crusade against corruption after massive fraud was uncovered at the customs service.

The then economy minister's accusations in August 1995 that government officials were linked to organised crime provoked huge controversy within the administration and are believed to have hastened his dismissal in July. Since then, Mr Cavallo has been practically silent, spending much of his time in Ecuador where he is an adviser to Mr Abdalá Bucaram, the newly elected president.

But, in a weekend interview with La Nación newspaper, Mr Cavallo said: "I'm extremely pleased that President Menem has placed himself at the head of the fight against the mafias. Last year, when I denounced the existence of such mafias, he told me... it was not the right moment [to take up the issue]... I would have liked to join him in the battle from within the government, but now I will do it from outside."

Mr Cavallo's offer to join the anti-corruption crusade has not met with universal government approval. His suggestion that Mr Elías Jassan, justice minister, was not the right person to take on organised crime provoked a rebuke from Mr Carlos Corach, interior minister: "Nobody is going to tell us how to combat corruption."

Mr Corach said there were several pending legal cases against officials appointed by Mr Cavallo, including at the tax department, the customs service and at Banco Nación, accused of taking bribes in the award of a contract to IBM.

"When the court cases are over, we will see how many politicians are implicated in corrupt practices and how many technocrats," said Mr Corach.

Mr Cavallo's image as an outspoken critic of corruption is likely to be an important asset if he attempts to return to the political arena.

NEWS: UK

MPs are urged to carry out rapid investigation of cash-for-questions claims against ex-minister

Speaker of Commons warns on 'sleaze'

By James Blitz, Political Correspondent

Mrs Betty Boothroyd, Speaker of the House of Commons, said yesterday that the "cash-for-questions" affair was damaging the reputation of parliament. She warned MPs that they must complete a new investigation into the matter "as soon as possible".

As the Commons authorities launched a full-scale investigation into allegations against Mr Neil Hamilton, a former Conservative minister, Mrs Boothroyd said the issues were "very serious," and that "the reputation of the House as a whole has been called into question".

The main allegation, fiercely denied by Mr Hamilton, is that he had been paid by Mr Mohamed Fayed, chairman of Harrods, to table questions in the House of Commons.

Addressing MPs as they met for the first time after the summer recess, Mrs Boothroyd said "all necessary steps" would be taken to ensure that Sir Gordon Downey, the commissioner for parliamentary standards, had the resources required to carry out an investigation into the Hamilton case.

She also insisted that the proceedings of the all-party committee for standards and privileges – to which Sir Gordon is accountable – should be "as transparent as possible".

Opposition MPs last night claimed that Mrs Boothroyd's intervention was a further embarrassment for the government over the cash-for-questions affair.

The government has been trying for more than two years to escape the reputation that some of its MPs are mired in "sleaze". Mrs Boothroyd's call for a speedy investigation increased speculation at Westminster that a report into the Hamilton affair might be published before the next general election, which must be held at the latest by the end of May next year.

The Speaker's statement came as the House committee for standards and privileges considered the way in which allegations about Mr Hamilton should be handled.

The committee was also due to consider whether it could examine evidence that Mr David Willetts, a former Conservative whip, put pressure on the committee of members' interests when it made a preliminary attempt to examine the Hamilton case in 1994.

Sir Gordon has insisted that he has no powers to judge the allegations against Mr Willetts. However, there was speculation at Westminster yesterday that the committee could recommend that his powers be widened to encompass issues of "privilege" – parliamentary language for the rules under which the Commons operates.

Party reels from allegations and defections

Leaked memo puts unwelcome spotlight on the government

Major's dwindling majority: Peter Thurnham (left), who switched from the governing Conservative party to the centrist Liberal Democrats last week, is the third Conservative MP to leave the party in the past 12 months. The first was Alan Howarth (right), a former junior education minister, who became the first sitting Conservative MP to switch to the Labour party – the main opposition party. Mr Howarth quit complaining of the government's "arrogance of power". Emma Nicholson, a former vice-chairman of the party who said she could no longer endure seeing Britain's future "endangered by the government's indecision and weak leadership on Europe," switched to the Liberal Democrats last December.

The furore caused by the leak of the so-called Willetts memo – the supposed proof of the government trying to subvert a quasi-judicial parliamentary process – has had an extremely unwelcome side-effect for Mr John Major, the prime minister.

Apart from the role it appears to have played in persuading the former Conservative MP, Mr Peter Thurnham, to defect to the centrist Liberal Democrat party, it has shone a spotlight on the workings of the government's whips' office. The whips are the government's managers of its business in the Commons, whose aim is to ensure that no parliamentary vote is lost.

The office is widely regarded as a secret society made up of bullies. What has hitherto been unknown is that each whip makes notes of all important conversations. This will strike fear into the hearts of MPs and even journalists. The thought that their private chats, including gossip about colleagues, have been committed to paper will be most uncomfortable.

The point of the system, one party manager disclosed, was to keep all the whips abreast of important intelligence without having endless meetings.

Unfortunately, the system appears to have backfired slightly in the case of the Neil Hamilton affair. These were the allegations that Mr Hamilton, a former trade minister in the Conservative government who is still an MP, received many thousands of pounds in the late 1980s for asking questions in the Commons to further the business interests of Mr Mohamed Fayed, owner of the celebrated Harrods store.

In late 1994, the House of Commons members' interests committee, chaired by the Conservative MP Sir Geoffrey Johnson Smith, was under pressure to look into the Hamilton allegations. This, however, would have been unwelcome to the government because its popularity had been damaged by a seemingly endless stream of newspaper stories about Conservative MPs receiving cash for asking parliamentary questions.

In October of that year Mr David Willetts, then a government whip and now a close adviser to Mr John Major, had a conversation with Sir Geoffrey.

This was recorded by Mr Willetts in one of the whips' offices secret notes, which was leaked 10 days ago. The note appears to summarise a discussion about how the more damaging charges against Mr Hamilton could be kept outside a committee investigation – or if a full investigation were to take place, how it should be as rapid as possible.

Mr Willetts has said that this one piece of hand-written paper cannot be understood properly without reference to other government papers. He is hopeful that a new investigation will clear him of any suggestion that he was attempting to subvert the quasi-judicial function of the committee.

Yesterday, as parliament returned after its summer break, a new committee, the standards and privileges committee, is due to discuss the terms of reference of the new investigation into the Hamilton affair. It will be carried out by Sir Gordon Downey, the commissioner for parliamentary standards who reports to the committee.

A number of MPs, including the leaders of the opposition Labour and Liberal Democrat parties, believe Sir Gordon does not have the power to look into the question of whether Mr Willetts was involved in a government scheme to impede the earlier investigation. Sir Gordon is understood to share these concerns. There is pressure therefore for this to be examined by an independent tribunal.

Although to the electorate this question may seem less important than whether MPs received cash for questions, it is important for MPs themselves. It strikes at the heart of the British parliamentary principle that MPs are answerable only to the electorate. If it were shown that MPs were not fit to sit in judgment on themselves, the question would arise about whether they should be permanently answerable to some kind of outside authority, capable of having them thrown out of parliament.

The government cannot therefore dismiss as political propaganda the attack by Mr Thurnham that he was defecting largely because of his concern at attempts "to suppress inquiries into allegations of sleaze".

Many MPs on all sides of the House share these concerns. As a result, the whips' job of ensuring the government wins its votes with its thin majority will become even more difficult.

Robert Peston

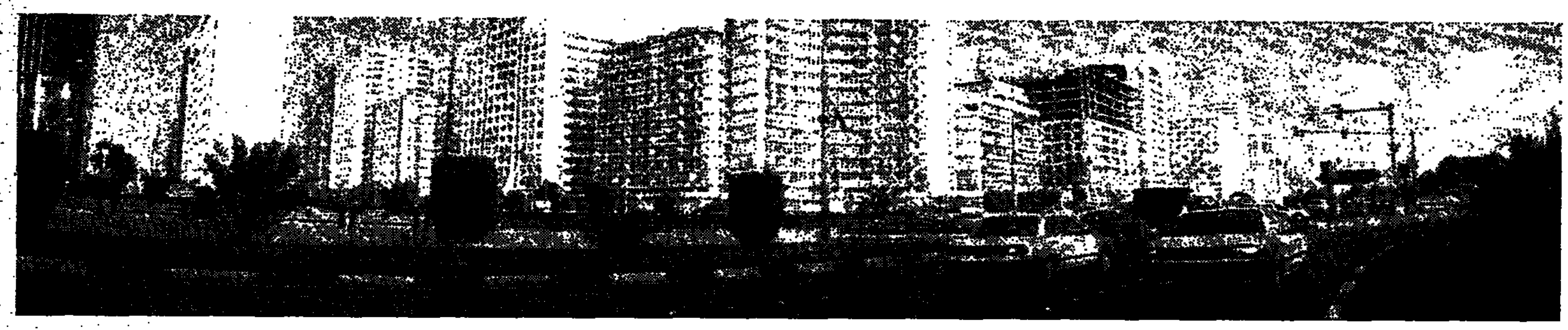
ADVERTISEMENT

President of the United Arab Emirates

Since its establishment in 1971, His Highness President Sheikh Zayed has presided over the complete transformation of the UAE, whose infrastructure, social and commercial development were only just beginning to evolve.

His Highness Sheikh Zayed bin Sultan Al-Nahyan
A Statesman of Vision and Generosity

One Man's Vision



It is undeniable that oil, which was first exported in 1962, has provided the impetus and means of achieving this transformation into a modern state. But it is HH Sheikh Zayed's breadth of vision, tireless commitment and unswerving leadership which has channelled these resources to achieve a remarkable level of progress and prosperity. At the same time, he has played a crucial role in realising the aspirations of his people and those of the Arab and Islamic world. HH Sheikh Zayed's first visit to Europe in 1952 had a profound impact upon him and strengthened his resolve to develop the social facilities and infrastructure of his country.

Born in the oasis settlement of Buraimi, HH Sheikh Zayed was appointed Governor of the Al-Ain district in 1946. For the next twenty years, he selflessly devoted his energy and enthusiasm to the development of the region and its people. Among the first of many notable milestones which have marked his life was the restoration of the ancient irrigation channels and the building of new systems to maximize the agricultural potential of the district and the amelioration of its inhabitants' way of life – an objective which he continues to pursue on a much larger scale to this day. It is a measure of his breadth of vision that the Emirates' development has attained such spectacular heights and, through his generosity, the people enjoy one of the most sophisticated social welfare systems and highest standards of living in the region. Indeed, his presidential mandate has been regularly extended at five year intervals ever since.

A Keen Sense of Responsibility • • • Since his election as President of the United Arab Emirates in 1971, HH Sheikh Zayed has been acutely conscious of the need for every citizen to face his responsibilities and obligations to his brethren and to the cause of Arab solidarity – an unflinching commitment to the well-being and stability of all Arab states.

It is a measure of his wisdom, sensitivity and a thorough appreciation of the issues and conditions confronting the Arab world, that he advocates time, dialogue, understanding and patience to secure the Arab position in the wider international community. Such an approach has enabled HH Sheikh Zayed to generate a sense of cohesion among the nation's allies and neighbours. Furthermore, under his guidance, the UAE plays an active role in pan-Arab development as a founder member of the Gulf Cooperation Council.

In times of crisis elsewhere in the world, HH Sheikh Zayed has placed the UAE at the forefront among nations in providing unwavering support and generous aid packages to ameliorate the conditions of those less fortunate.

But for the Ruler, the sense of responsibility has its roots in his desire to improve the social conditions and welfare of his people at home. At the time of his accession, this federation of embryo city-states was only just beginning to emerge from a way of life that had prevailed for many centuries. Since then, huge resources have been directed towards the establishment of an infrastructure capable of supporting the needs and aspirations of the people. From a sophisticated network of healthcare centres and an integrated educational system, from the primary to tertiary levels, to the creation of complex communications systems and a flourishing commercial and industrial base, the transformation has been truly remarkable.

Man of the Year: 1991 • • • In a poll conducted by "Al Ithnain", an Athens-based magazine, carried out in June 1992, HH Sheikh Zayed was voted "Man of the Year" for 1991 in recognition of his pioneering role in the development of his country, his leadership of a unique federation of Arab states and his unstinting support for Arab and Muslim causes in every field of endeavour. This token of appreciation reflects the esteem in which he is held, both at home and throughout the Arab world.

An Inspiration to the Nation's Youth • • • Through his encouragement and inspiration, the UAE has achieved many significant goals on the road to modern statehood. The road has not been easy, but HH Sheikh Zayed, with the assistance of the Ministry of Education, has provided the stimulus for schoolchildren and students alike to explore their country extensively and to experience at first hand not only the progress that has and continues to be made, but also the country's cultural heritage and identity. In this way, today's youth will come to recognise that the task of building a modern state requires a vast collective effort and that previous generations, who did not enjoy such benefits, are owed a debt of gratitude.

The key to future prosperity and even greater social cohesion rests with the upcoming generation's determination to gain the maximum benefit from the educational opportunities available in every field of endeavour. The Emirates University at Al-Ain, with its exceptional facilities, represents solid evidence of the desire to provide the tools with which future generations can build upon the solid foundations established through HH Sheikh Zayed's prescience and determination.

A Reflection of the Emirates' Heritage • • • A strong maritime tradition runs parallel with that ship of the desert, the camel, and both represent two key aspects of the nation's psyche – a receptiveness to new ideas and tenacity in the face of adversity.

A Lifetime's Mission • • • Sheikh Zayed's journey from the Governorship of Al-Ain to the Rulership of Abu Dhabi and the Presidency of the United Arab Emirates is a vivid testimony to the qualities of leadership, political acumen and statesmanship which he has exercised during a period of massive change in the quest to create a caring and successful society.

The most visible testament to the nation's development can be seen in the spectacular architecture of the cities, which are imbued with a sense of human scale through a sensitive approach to the needs of the people for an appropriate setting in which to live, work and relax. The construction of modern housing, well-equipped sports stadia, leisure centres and museums have served to enrich the community at all levels.

Modern technology has been tamed to provide electricity and desalinated water, industrial complexes built to exploit the nation's natural resources and a communications system and infrastructure deployed to provide the engine for future growth and prosperity. None of these existed previously.

It is a display of national confidence that the Emirates have created a popular tourist destination for travellers from all over the world. They can enjoy a superb tourist infrastructure, unrivalled recreational facilities on land and sea and some of the finest duty-free shopping in the world.

Yet it is the greening of the desert and the establishment of a flourishing agricultural and horticultural sector which have provided a more natural backdrop to the nation's continuing development. Under the President's patronage, with his passionate interest in conservation, the protection and preservation of the environment and its precious wildlife are assured. Extensive scientific studies and intensive education programmes are combined with proactive measures to reintroduce a harmonious balance into this fragile eco-system, between man and nature.

Under the guidance and encouragement of His Highness President Sheikh Zayed bin Sultan Al-Nahyan, the citizens of the UAE are equipped to meet the challenges of the future. The debt of gratitude owed by the people to this one man cannot be over-estimated for his commitment to achieving a state of stability, well-being and prosperity.

For further information please contact meiac, 50 Hans Crescent, London SW1, England

Controversial reform accepted after BBC pledges to preserve 'special character'

World Service compromise agreed

By Raymond Snoddy in London

Mr Malcolm Rifkind, the foreign secretary, has approved plans by the BBC for restructuring its World Service, but only after the corporation offered 20 new measures.

The concessions are designed to protect what were described in a statement agreed by the BBC and Foreign Office as the "special character, style, ethos" of World Service broadcasts in the English language.

Yesterday's compromise came after an independent committee examined the BBC's proposals for incorporating BBC World Service programme makers in new divisions covering all of BBC television and radio leaving commissioning as the only prime World Service function.

The concessions now accepted include making sure that World Service news and immediate current affairs programmes will be produced by a dedicated unit with BBC News, co-located with the World Service including the foreign language services. "Co-location" is a big concession by the BBC. Opponents of the restructuring argued that the close physical proximity of the World Service staff and the foreign language specialists was important for the quality of the service.

Challenged about the plan to separate the two, Sir Christopher Bland, the BBC chairman, suggested earlier this year that they could use telephones to communicate.

Yesterday's agreement specifies "any period of separation to be kept to a minimum and entered upon only if and when the World Service has agreed that the advantages significantly outweighed the disadvantages".

An independent advisory panel is also to be set up under the chairmanship of a BBC governor to advise the governors on World Service output and performance.

Mr Rifkind and Sir Christopher have also asked the panel of independent experts to reconvene in a year to review the progress of BBC restructuring proposals.

The National Audit Office had already been invited to look at the functioning of the new financial mechanisms after six months.

The Foreign Office hoped that the extra clarity and safeguards obtained "will be victory for the BBC World Service."

The Campaign to Save the World Service last night gave an initial qualified welcome to yesterday's agreement between the Foreign Office and the BBC although it feared there would still be longer term problems.

First electric cars to set out for a test drive

By Haig Simonian, Motor Industry Correspondent

The first experiment with electric cars in a British city will be announced today. Sir George Young, transport secretary, will announce at the British Motor Show, which begins today, that 14 electric-powered Peugeot 106 cars will operate in the Midlands city of Coventry for an initial period of a year.

The Coventry experiment mirrors a much more substantial scheme in La Rochelle on the west coast of France, where 50 of the environmentally friendly electric Peugeot 106s were used by private motorists, companies and public-sector bodies between 1993 and 1995.

The La Rochelle experiment, which included a substantial investment in setting up a network of electric recharging points around the town, has drawn international attention to electric vehicles, especially in a restricted urban environment. Shortly before it ended, Peugeot launched a commercial version of the electric 106 in France for about FFr92,000 ($18,150).

The Coventry scheme, under discussion for about 18 months, is more modest. Unlike La Rochelle, where the state-owned Eléctricité de France utility strongly supported the project, the £500,000 UK venture has found it harder to find sponsors.

New charge: an electric Peugeot 106 is plugged into a power point in Coventry

The Energy Saving Trust is contributing an undisclosed sum to launch the venture, while four users including Coventry City Council, East Midlands Electricity, PowerGen and the Royal Mail will buy a handful of electric 106 hatchbacks and vans. Peugeot says the vehicles will be sold, not loaned.

The four users will assess the vehicles, while the scheme will be also be independently monitored. Peugeot says "successful progress could lead to the Peugeot 106 Electric being on sale in the UK during 1997".

● Honda Motor, the Japanese carmaker, yesterday built its 250,000th vehicle at its factory near Swindon in southern England. The plant, which started production in 1992, expects to raise its output to 150,000 cars a year in 1998, when the two-model range will be supplemented by a derivative of one of the existing vehicles.

Watchdog fines advisers over pensions mis-selling

By Christopher Brown-Humes in London

A City of London watchdog yesterday fined four of the country's leading independent financial advisers a total of £405,000 ($631,800) in the first significant disciplinary action to stem from the probe into mis-selling of personal pensions.

Godwins, Alexander Consulting Group, Heath Consulting and Willis Corroon Financial Planning were all found to have breached rules in pension transfer business by the Investment Management Regulatory Organisation (Imro). They must pay £225,000 in costs.

In 1994, the Securities and Investment Board, the chief City watchdog, ordered life assurance offices and independent advisers to review up to 1m personal pension plan sales, mainly to identify people who were wrongly advised to leave occupational pension schemes for personal schemes between 1988 and 1993.

But the process has taken longer than expected and few people have yet received compensation. Some estimates suggest that more than 300,000 people will eventually receive a total of between £2bn and £4bn in compensation.

Godwins was fined £200,000; Willis Corroon Financial Planning £95,000; Heath Consulting £70,000 and Alexander Consulting £40,000. The fines mainly related to clients not being given full or clear enough information and to poor record-keeping. "People cannot make an informed decision when they are not given all the facts. That is mis-selling," said Imro.

But Mr Hunter Devine, chairman of Godwins, said: "Neither Imro's investigation nor our own internal review necessarily indicate that any client has been disadvantaged. But clearly we regret that there have been any deficiencies at all in our procedures."

He said Godwins had so far identified 13 clients who would be paid between them more than £90,000 in compensation. "We are determined to ensure that none of our clients suffers any loss," said Mr Devine.

Willis Corroon said it expected fewer than 5 per cent of the pension transfer cases it handled to require compensation, although it added that the first payments would not be made until next year. Redress could take the form of personal pension top-ups, reinstatement in occupational schemes, or direct cash payments, it indicated.

Imro said 18 of the 30 firms under its auspices would complete their reviews by the end of the year. A total of 77,000 pension transfer cases are being reviewed by Imroregulated firms. It added that 340 of the 400 cases where reviews had been completed had required no corrective action. The average compensation offered was £3,000. It expects to fine a "handful" of other firms for rule breaches by the time the process is completed.

French company hopes to win more rail routes

By Charles Batchelor, Transport Correspondent

A French transport group which has already won two train operating franchises in Britain hopes to add two more before privatisation is completed.

Connex Rail, the UK transport subsidiary of the French water group, Compagnie Générale des Eaux (CGE), yesterday took over the South Eastern franchise covering the Kent and Sussex region of south-east England.

The company yesterday unveiled the first of 16 trains which will run from the Kent coast to London. It took over the South Central franchise, covering south London, last May.

Connex has been shortlisted in the bidding for the Great Eastern franchise, jointly with the company's management. If it acquires Great Eastern, which has routes from London into the counties of Essex and Suffolk, it would control a sizeable part of rail operations in south-east England. The two franchises it has already won account for 17 per cent of total UK rail ticket revenues.

Connex is also preparing bids for several other franchises, including Central Trains, North East and North West Regional Railways, and is considering bidding for InterCity West Coast, which runs trains from London to the English Midlands and Scotland.

The new trains for South Eastern services will all be in service in early January. Connex has also invited bids from train manufacturers to supply a further 30 trains for delivery in 2000.

CGE's French transport subsidiary, CGEA, runs train services on 966km of route in France under contract from SNCF, the national state network, and municipal authorities.

Former Barings manager demands bonus

By John Gapper, Banking Editor

Ms Mary Walz, one of the senior managers at the Barings merchant bank in charge of its rogue trader, Mr Nick Leeson, yesterday laid claim to a £500,000 ($780,000) bonus she was promised hours before the discovery last year of hidden losses of £880m.

Ms Walz, later sacked for her part in the Barings collapse, told an industrial tribunal in London that she had been described as "a star" while being told of her bonus by Mr Andrew Tuckey, the deputy chairman of Barings, in February 1995.

Ms Walz, who was global head of equity derivatives trading, was among 21 senior managers who were dismissed or who resigned in April 1995. She is the only one of them to seek her profit-sharing bonus for 1994 from the investment bank ING Barings.

If her claim is upheld, it could lead to further claims by former managers of the merchant bank, which is now owned by the Dutch bank, ING Group. They may include Mr Ron Baker, formerly Ms Walz's direct boss at Barings.

Ms Walz told the tribunal that, at a meeting in his room, Mr Tuckey handed her a slip of paper with the figure for the bonus she was due to receive.

"He said something like: 'Mary, what can I say? You are a star'." Ms Walz said. There was no suggestion the bonus was provisional.

Ms Walz said she thought she still deserved it. "I worked extremely hard during 1994 for Barings and gave a tremendous commitment to my job. I was never once given any indication that I was not doing what they wanted."

Her claim was criticised as "preposterous" by Mr Nicholas Underhill, a lawyer representing Barings. He said the proposed distribution of bonuses was based on a false belief that Barings had made profits of £204m during 1994.

It was "surprising" Ms Walz claimed to be entitled to a £500,000 bonus "in respect of a period in which Barings' derivatives operation in Singapore made spectacular losses and drove the bank into insolvency".

Barings claims that Mr Tuckey's verbal promises to various staff of the bonus payments were only a provisional indication.

Mr Baker will today attempt to clear his name before a tribunal of the Securities and Futures Authority, the City regulator. He faces a three-year ban from working in the City if he fails.

This combination of industrial tribunal and SFA hearing is the biggest challenge that ING Barings has faced over the way it handled the senior managers involved.

The Walz tribunal hearing continues.

UK NEWS DIGEST

Germany told not to delay Eurofighter

Mr Michael Portillo, the UK defence secretary, yesterday warned Germany that export orders for the Eurofighter combat aircraft would be hit unless all partners in the £40bn ($62.40bn) project moved to the production phase "without further delay".

He believes Germany could drag its feet over the production of the aircraft – a joint venture with the UK, Spain and Italy – because of attempts to curb public expenditure in the approach to European economic and monetary union.

"I have made clear that the British government is ready to proceed," Mr Portillo said in the House of Commons yesterday. "If we are to have good export prospects for the aircraft, it needs to be produced without further delay."

Bonn is currently locked in negotiations with Daimler-Benz Aerospace (DASA), the prime contractor in Germany, over the financing of the next phase of the project.

Yesterday a German defence ministry official said DM100m ($67.50m) had been allocated for the project in next year's budget, but that DASA was demanding DM390m. "We want the aircraft but there are tight constraints on the money available in the 1997 budget."

George Parker in London and Peter Norman in Bonn

■ WATER REGULATION

Companies face price review

Ofwat, the water industry regulator, will announce today that it is to conduct a price review of water companies five years ahead of schedule. The announcement by Mr Ian Byatt, Ofwat's director-general, that he will stage a mid-term price review in 1999 follows complaints that he has been too lenient with an industry that has been too greedy. Most of the biggest water companies are former state utilities.

The current caps on the prices which water and sewerage companies are allowed to charge customers were set last year for a ten-year period expiring in 2004. But Mr Byatt has been under intense political pressure to take a tougher line with a much-criticised industry, particularly from the opposition Labour party. The latter has threatened to clamp down on water company profits if it comes to power at the next general election. *Leyla Boulton*

■ GAS INDUSTRY

Monopoly uncertainty deepens

Ofgas, the gas industry regulator, yesterday left open the possibility that a forthcoming Monopolies and Mergers Commission inquiry into British Gas's TransCo pipeline monopoly might investigate the corporate structure of the company.

British Gas said it viewed the Ofgas statement as an implied threat, and Mr Philip Rogerson, British Gas's deputy chairman, said Ofgas's decision to raise the structural issue in such an oblique way adds to the regulatory uncertainty surrounding TransCo. *Robert Corzine*

■ CURRENCY SPECULATION

Trader withdraws forex schemes

Connaught Drysberg, a London-based company, has stopped offering currency trading schemes to private investors and returned all deposits to its customers, believed to number about 50. It has withdrawn its application to the Securities and Futures Authority for permanent authorisation.

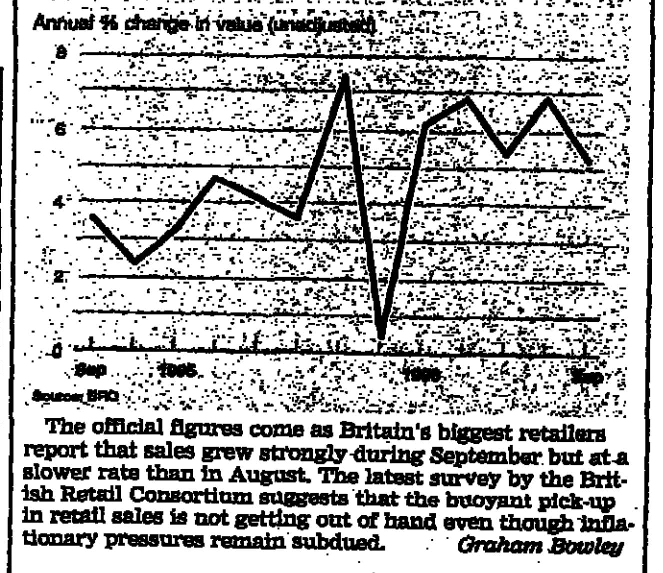
Mr Tobias Ridpath, Connaught's managing director and controlling shareholder, said future options for the company were under review, although he gave no further explanation for the company's decision. Mr Ridpath was previously an account executive at Financial Management International, a company wound up last year by the Securities and Investment Board. *Clay Harris*

Europe's artful dodgers, Page 15

■ ECONOMY

Oil prices hit manufacturers' costs

Higher oil prices hit British industry last month, pushing up manufacturers' fuel and raw material costs and causing the first rise in factory output price inflation for 14 months. But the underlying annual rate of manufacturers' output price inflation, which excludes petrol, food, drink and tobacco, was the lowest for 29 years, easing fears that strengthening consumer demand was tempting manufacturers to make large price rises.



The official figures come as Britain's biggest retailers report that sales grew strongly during September but at a slower rate than in August. The latest survey by the British Retail Consortium suggests that the buoyant pick-up in retail sales is not getting out of hand even though inflationary pressures remain subdued. *Graham Bowley*

■ INWARD INVESTMENT

Italian group to make batteries

A £10.5m ($16.38m) battery factory to be built in south Wales by the Italian-based Fiamm group. The group has agreed with the Welsh Development Agency to buy a 13-acre site at Crumlin, near Newport, where it will produce batteries for fork-lift trucks and other heavy-duty uses. At full production, the plant will make 500,000 lead-acid traction cells a year and almost 90 per cent of output will be exported to continental European markets. The project will receive an undisclosed amount of grant aid from the Welsh Office. *Roland Adburgham*

Editorial comment, Page 15

■ MOBILE TELEPHONES

Personal calls 'exceed business use'

More people are using mobile phones for personal calls than for work for the first time since cellular services were introduced in the UK, the latest annual survey the London-based consultancy Continental Research shows.

It also indicates that service providers can expect only half the revenues from subscribers using their phones for personal purposes than from business customers. *Alan Cane*

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This advertisement is issued by the British Railways Board and has been approved solely for the purpose of Section 57 of the Financial Services Act 1986 by Price Waterhouse who are financial advisors to BRB. Price Waterhouse is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

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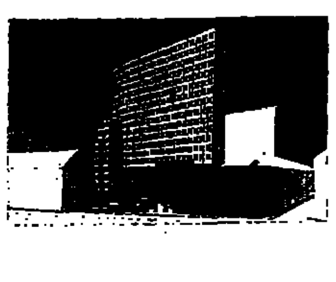

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TECHNOLOGY

Controversy around new genetically-modified crops may have caught biotech companies by surprise, says **Alison Maitland**

Against the grain

Biotechnology companies claim genetically engineered crops can increase harvests, benefit the environment and help avert a future world food crisis. Critics say they may damage the environment, threaten human health and remove freedom of choice from consumers.

Meanwhile, the development of genetically modified crops and food products such as tomatoes, oilseed rape, cotton and potatoes is gathering pace. A handful have won approval in all important markets. Many more are waiting to join them.

Some products, such as modified tomato paste from Zeneca of the UK, have met little opposition. Retailers have provided customers with information and the product has been labelled.

But two new commodity crops are attracting controversy: a soyabean engineered by Monsanto of the US to be resistant to the company's own glyphosate herbicide, known as Roundup, and a maize plant designed by Ciba of Switzerland to protect itself against the European corn borer pest.

The two biotechnology giants might have anticipated consumer unease about the arrival of new genetically modified products on the European market – even though concern is far more limited in the US. But they could not have foreseen that they would be pushing their products in Europe just as the "mad cow" debacle had dented consumer confidence in food safety and regulation.

The soyabean has been approved in the US, Canada and Japan. The European Union gave permission for imports in April. Soyabeans, and the meal and oil made from them, account for 35 per cent of US agricultural exports to the EU and were worth more than $2bn (£1.2bn) last year. The European Commission says the beans are safe and there is no need to segregate them or label products containing them. But European food retailers and environmental lobby groups are campaigning against the bean precisely because the first imports, expected within the next two months, will not be identifiable.

It will be the first genetically modified crop to reach the European market without being labelled. Since crushed soyabeans are used in 60 per cent of processed foods, critics argue that consumers will be forced to eat genetically modified products even if they prefer not to.

EuroCommerce, which represents EU retailers and wholesalers, is urging US grain companies to segregate the beans. It says that if other genetically altered commodities such as maize and potatoes also win approval, 70 per cent of food products will contain engineered ingredients.

Monsanto says segregating beans for mass markets would be economically and physically impractical for farmers, grain companies and shippers. It would involve a costly and "monumental" restructuring of practices.

An Iowa-based company, *Genetic ID*, claims to have developed a test to detect whether foreign DNA has been spliced into the natural genetic sequence of soyabean or maize plants.

The British Retail Consortium says members are interested in the technology. But they are cautious about the sampling methods and whether beans identified in their raw state can be kept separate further down the food chain. Processing breaks down the protein and DNA, which show if a plant has been altered.

Critics argue for segregation, saying the environmental risks of engineered crops have not been fully investigated. They question whether less chemical spray will be used, as the industry argues, and they fear herbicide resistance could spread and create "superweeds".

Monsanto counters that there is no reason for segregation since the soyabean is identical to traditional beans in terms of safety, nutritional content and processing characteristics.

Ciba says its "Bt maize" boosts yields while helping the environment. The maize contains genes making it resistant both to the corn borer, which can damage as much as 20 per cent of the EU maize crop, and to a herbicide not produced by Ciba. It also contains a third, antibiotic-resistant "marker gene" (see below).

Approved in the US, Canada and Japan, this is the first genetically modified crop to fail to win backing from a majority of member states in the European Union. The UK is concerned that antibiotic resistance could pass to animals, and possibly humans, from the unprocessed maize. Austria, Sweden and Denmark have environmental and labelling worries.

The European Commission has asked three scientific committees to review the case. Today's EU environment council is expected to discuss speeding things up.

The regulatory process is central to controversy over these novel products. In the US, approval is co-ordinated by three departments – the Environmental Protection Agency, the Food and Drug Administration and the Department of Agriculture.

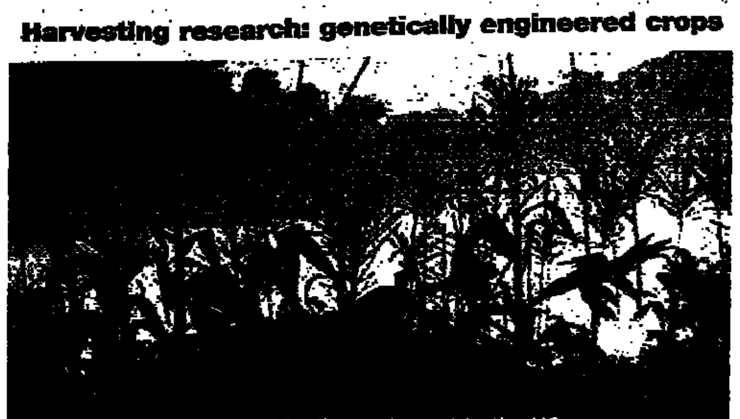
In the EU, regulation is struggling to keep pace with genetic developments. Biotechnology companies find the process long-winded and unpredictable.

Under the directive on the release of genetically modified organisms, known as 90/220, a new product is handed for approval to the member state where it will first be marketed. That country's opinion is then subject to approval by scientists from all other member states. The Commission plans to review the directive shortly.

Meanwhile, a Novel Foods Regulation aimed at harmonising approval of products based on engineered crops is being held up by disagreement between the European parliament and member states over product labelling. Optimists expect a resolution this year, but pessimists say it will take "a very long time".

Commodities, Page 28

Harvesting research: genetically engineered crops



Crops approved for cultivation or import to the US
(as of September 1996)

- Herbicide-tolerant oilseed rape
- Virus-resistant squash*
- Delayed-ripening tomato
- Insect protected maize
- Increased laurate oilseed rape
- Herbicide-tolerant soyabeans
- Insect-protected potatoes

Products approved by the EU

- Herbicide-resistant tobacco
- Herbicide-resistant soyabeans

Pending approval by the EU

- Insect protected maize
- Herbicide-resistant maize
- Herbicide-tolerant oilseed rape
- Hybrid oilseed rape

Products in the research pipeline

- Disease-resistant wheat
- High-solids potatoes
- Higher-sugar strawberries
- Plants that produce naturally coloured cotton fibres
- Plants that produce biodegradable plastic polymers for packaging and industrial use

* Vegetable marrow family

Source: Monsanto

A golden shot of DNA

Scientists use two approaches to transferring genes into crops. The original method, developed in the early 1980s, relies on the natural ability of the microbe *Agrobacterium tumefaciens* to insert its own DNA into plant cells.

The scientists first make a DNA "construct" – containing both the gene for the desired trait and others that are required for technical reasons, such as promoter and marker genes. The construct is transferred into *Agrobacterium*, which carries it into the cells of infected plants.

But this is restricted to broad-leaf plants such as beans and potatoes, which are naturally infected by *Agrobacterium*. For grain crops such as maize and wheat, genetic engineers have to insert the DNA construct directly into the plant cells.

The most popular way of doing this is to use a "biolistic" shot gun. Thousands of microscopic gold beads are coated with DNA and fired into the cells. The scientist goes on to grow whole plants from the transformed cells.

All known methods of inserting new genes into living cells are inefficient. Therefore marker genes, which identify the successfully transformed organisms, are essential. For example, Ciba's insect-killing "Bt maize" contains two separate markers. The first, for antibiotic resistance, was added because the development process involved multiplying millions of copies of the Bt gene in bacteria. The researchers treated the bacteria with antibiotic to kill off the ones that do not contain the new gene.

The other marker makes plants resistant to the herbicide Basta. This enabled the scientists to identify the transformed plants – they were the ones that survived herbicide treatment.

Clive Cookson

From petri dish to supper plate

Curt Elmer, a retired plant biologist, stands in a sunny rooftop greenhouse at Monsanto's research park in suburban Chesterfield, Missouri, and explains gene-splicing techniques as visitors marvel at the cool, Canadian prairie atmosphere that has fooled dozens of oilseed rape (canola) plants into reproducing.

Next door, a steamy hothouse is home to flowering cotton plants that have been genetically rewired to produce a substance that is toxic to bollworms and other pests.

Throughout the facility, the race is on to restructure the genes of plants to enhance their yield or value as food and fibre.

When Monsanto first invested $150m to build the research facility 10 years ago, biotechnology was a small sideline to its big chemicals business. Today, the company has staked its future on plant gene-transfer technology, believing that bio-engineering will fundamentally change agriculture in the next century.

Monsanto views itself as a Microsoft of engineered foods, defining and dominating a new high-tech industry. It has spent some $1bn (£650m) on in-house research and development, and lately, as competition quickens and products come to market, has bought what it has not had time to grow.

During the past 12 months Monsanto has spent $750m – or slightly more than last year's net earnings – to purchase parts of at least a dozen other biotech companies and gain control of valuable research patents. These acquisitions include a majority interest in Calgene, with its leading-edge technology in oilseeds and tomatoes; and the WR Grace property Agracetus, which owns a broad-based patent on cottonseed engineering.

With cross-ownerships, partnership agreements, and joint ventures, "Monsanto is trying to build a castle around its biotech business that no one can breach," says Sano Shimoda, an analyst with BioSciences Securities.

As a publicly owned company, Monsanto is under increasing pressure to generate shareholder return for these investments. However, the leap between petri dish and dinner plate is a long one, and Monsanto has to be sure not to stumble as it introduces bio-engineered crops. To that end, Monsanto lawyers have worked since 1992 with regulatory officials in the US, and later in Japan and Europe, to define and then satisfy food safety and environmental regulations for bio-engineered foods.

The company has also conducted a marketing blitz designed to get food processors and distributors to accept the new crops without special handling or labelling. It has cannily made sure that the first commercial roll-out of seeds with Monsanto-modified "software" are bulk commodities such as cotton and soyabeans that will blend seamlessly with their non-engineered counterparts as they enter the export or processing pipeline.

Consumers, Monsanto says, should be indifferent to the engineered crops, as they will not be visibly different. The company has targeted growers as the primary customers for its first generation of engineered products – insect-resistant potatoes and cotton, and herbicide-resistant soyabeans and oilseed rape.

Still, last year's launch of Posilac (BST), an engineered dairy hormone injected into cows to increase milk production, showed that Monsanto can badly miscalculate public reaction to its technology. A small but vocal group of consumers objected to a chemical company "tampering" with their milk, and protests by consumers have helped to block use of the product in Europe.

This year a similar push has slowed the European acceptance of Monsanto's genetically engineered soyabean. Company executives shrug off the protests, saying a few bumps on the road to a new era should be expected. So far, shareholders have been tolerant, willing to wait for the big pay-off in a new game.

Laurie Morse

Drawn to last

William Packer reviews the Malcolm Collection at the British Museum

We take our great public collections so much for granted that it is sometimes salutary to reflect on how they came together and into public hands. The Malcolm Collection, currently on show at the British Museum, is a case in point. The Malcolm Collection? That indeed is the point, for while we may never have heard of it, to go round it is to come upon image after image that is immediately familiar, not only from regular inclusion in exhibitions but from constant reproduction. We know the trees well enough, as it were, but not the whole wood.

John Malcolm of Poltalloch, who died in 1893 at the age of 87, was a rich speculator who collected old master drawings. His chief interest lay with works of the Italian renaissance, but he limited himself to no school or period, concerned only in buying "exceptionally fine and well preserved examples." And so, for the most part, they are.

He was fortunate in his time. The 1860s were rich in opportunity, with drawings from the incomparable collection of Sir Thomas Lawrence, which in 1830 the government had refused to buy for £18,000, still around. He began by buying the collection of the early Victorian connoisseur, Sir J.C. Robinson, and by the end of his life had acquired some 1,000 drawings from, *inter alia*, Botticelli and Leonardo to Rembrandt and Watteau. Among them was what is now one of the British Museum's greatest treasures, the huge and mysterious "Epifania" cartoon of Michelangelo, which it keeps on permanent display.

Malcolm's collection was already famous and, in 1895, perhaps in part to atone for that earlier crassity, the government of the day voted £25,000 for the museum to buy the lot, a sum considerably below its actual value. If a little late in the day, this present show, of some 200 works representing the full range and quality, marks the centenary of that benign if canny intervention.

Not everything, it must be said, is as remarkable as all that. By the very nature of the processes and purposes of drawing, some works inevitably are scrappy and insubstantial. And always there are attributions more optimistic than convincing, and scholarly exegeses more obscure than helpful. Dare one say it in such company, but the chance survival of a flimsy scrap of paper over several centuries does lend a certain aura of interest and even importance to an image not always commensurate with its quality.

But such thoughts are then confounded by the magnificence, spirit or sheer beauty of what is to be found in the next cabinet. Drawing at its best always brings us close to the artist at his least self-conscious and his most practical, working to a purpose and not for effect – testing an idea, solving a problem, finding out just what is there and how it looks. And here the excitement lies with the very mark, as it were the very thought, on the paper, and we at the artist's elbow as he makes it.

And so a sheet of four studies by Watteau, of his model's head, hair up and beribboned, turning this way and that, was never intended as a work of art as such and yet stands as the truest art of all, so touching is it in the immediacy of the presence it registers. Rembrandt catches his young model and mistress, Hendickje Stoffels, curled up fast asleep in her wrap, in a few broad sweeps of the brush, as sure as they are swift. Dürer takes us along the village street at Trent, Claude into the landscape of his imagination.

Here is Verrocchio caught up as much in the intricacies of his model's coiffure as in the delicate beauty of her downcast face, here Leonardo in the fall of drapery. Adriaen van de Velde fixes upon the crumpled boot and slouching turn of a louche horseman, Filippo Lippi upon the raised hands and enfolding cloak of the woman he has got to model as a saint. We have studies for imaginary compositions from Solario, Titian and Giulio Romano, Botticelli's sinuous and transparently seductive "Autumn", portrait heads from Raphael, Van Dyck and Carlo Dolci.

Though not by the greatest of names, it is one of these last, a small and fugitive scrap by Lorenzo di Credi, contemporary of Leonardo, of the head of a long-haired boy wearing the barest indication of a cap, that in both quality and kind may well stand for the whole collection. For in its directness of observation, its human knowledge and curiosity, its lightness of touch and sure economy of execution, it is as true an embodiment as any of the essential nature and qualities of drawing. It rings as true and real to us as it must have done the day it was made. Who could doubt the relevance, the continuing modernity, of such a thing, that is the true shock of the old?

Those wide, watchful eyes peer out across the centuries, the pert nose, the pursed lips. It is barely there, and yet it is all there, and there is nothing more to be done, or said.

Old Master Drawings from the Malcolm Collection: British Museum, Great Russell Street WC1, until January 5.

At the artist's elbow: Peter Paul Rubens' drawing of a man with a horse

Opera/**David Murray**

Refurbishment of the gods

Exactly a year ago, I wrote here about the premiere of Richard Jones's facetious, reductive Royal Opera production of *Götterdämmerung*, the culmination of Wagner's *Ring* cycle, with some contumely. (I called my review "Götterdämmerung gutted", but this was changed to "Twilight of rare quality": you win some, you lose some.) On Saturday we had it again, closing the first of three *Ring* cycles at Covent Garden; and it was much, much better.

Since last February Jones has been revising his production, and the current cast – mostly the same as last year's – have made themselves more comfortable with his intentions. Kurt Rydl's tremendous Hagen, the best since Gottlob Frick's, has expanded into a vein of demonic comedy, perfectly adapted to Jones's formula for the opera. If Rydl lacks Frick's gut-shaking roar on bottom notes, his are still *there*, and true; and his words are as forcefully transmitted as the brutal glint of his *persona*.

Lofty Deborah Polaski, last year's Brünnhilde, returned to increased acclaim. Jones has scrapped his first draft of her opening scene with Siegfried – where they appeared quite separately, at opposite sides of the stage, though Wagner's dawn prelude is plainly a first-night afterglow – in favour of something more plausibly intimate. With her head paper-bagged in Act 2, she conveyed distressing lostness and pathos, and later she cut a thrilling, vengeful swathe among Hagen's aghast vassals.

Only Jones's wretched apology for the "Immolation" finale, different from before but just as cack-handed and ineffectual – no awestruck populace, no sense of supra-personal catastrophe, nothing but thin stage-tricks – left her high and dry, with nothing to do but give a concert-performance. Even then, her full-hearted vocal range and her intelligent sensibility won through.

Though Alan Held's Gunther is again nobly sung, Jones has made a "stronger" stage character of him by stressing his twitchy-effete, spoiled-youth qualities. No such qualities are evident in his music, of course. When someone asked Fischer-Dieskau whether his Gunther wasn't rather *too* noble, he replied unanswerably: "But Gunther is a Prince!"

That is how the myth goes, and to subvert it is to cloud the performance. Held plays up loyally to his prescribed kinks, at severe cost to Gunther's wrenching moral horror at what happens in the later acts; that diminishes both him and the story.

Still, the whole of Act 2 has acquired a confident sweep. The pistol-packing SAS-style vassals, roused from bed in shirts and underpants, bristled with faintly comic menace, and this time they got their hair-raising chorus together from the start.

Siegfried Jerusalem's hero sounded tired but plucky; Ann Murray is the finely dramatic new Waltraute (darker depths in the voice would be even better, but never mind); Rosemary Joshua's bright, elegant soprano is an asset to the Rhinemaidens.

Excellent Norns, a gentler Gutrune from Vivian Tierney than before, and Ekkehard Wlaschiha's Alberich is again faultless. And Haitink's reading of the score is more searching and subtle than ever: with a slightly more forward pace – he does linger, sometimes – it would count as a great one.

Theatre/**Ian Shuttleworth**

Raw emotion in the prairie

Sam Shepard's geographical home territory is the American south-west, where for vast swathes there are few structures to be seen, only the expanse of raw nature. His plays often occupy an analogous area, concentrating on the mesas and canyons of psychology and emotion whilst doggedly refusing to build load-bearing factual frameworks amongst them.

Fool For Love, presented at the Donmar as Ian Brown's first major production since leaving Edinburgh's Traverse Theatre, is a fine example of Shepard's dramatic landscape. Ex-lovers Eddie and May's relationship is in a Beckettian continuum of nearly-ness: Eddie drives thousands of miles to May's Mojave hotel room, grows wildly possessive but wriggles out of commitment at the last second, as May excoriates him incessantly but screams him back at each attempted departure. Both are visited by The Old Man, whose status is somewhere between memory and ghost; stories of their past are told and disputed, with contradictions never quite cleared up for the audience.

Lorraine Ashbourne and Barry Lynch — Alastair Muir

Behind Robin Don's impressive big-sky-and-telegraph-pole gauze, The Old Man is periodically seen sitting, drinking and pontificating; he later emerges into the room itself, never directly regarded by its inhabitants but still sharing the bottle of tequila which circulates.

Gawn Grainger's Old Man combines a rumpled, low-key Harry Dean Stanton presence with the daunting self-certainty of Hal Holbrook, shattered at the end when he hears the missing pieces of Eddie and May's story for the first time. Barry Lynch is on fine, obstreperous form as Eddie, indirectly but tangibly demonstrating himself to be his father's son.

Lorraine Ashbourne has not fully got a handle on May: she deploys her considerable lung-power with precision, but both her vocal work and solo physical gestures seem a bit studied. Eddie and May's body language together, though, is perfectly agonised: it speaks of former intimacy, desire, reluctance and fear to reactivate the dormant fires.

After his performances in Method and Madness's season at the Lyric, Hammersmith, earlier this year, it seems that Martin Marquez moulds his performances from the voice outwards; as Martin, May's current man, he once again uses an awkward, semi-articulated vocal rumble to denote a simple-minded, chronically-bewildered figure.

Brown's production gets close to the heart of the play and although it never quite achieves the Shepardian paradox of bringing the deliberately absent elements of the picture into clear focus, it is, as the saying goes, "close enough for jazz." The punter behind me on the way out was volubly complaining that he "expected better of this place"; some people are never satisfied.

At Donmar Warehouse, London WC2, until November 30 (0171-369-1732).

Ballet/**Clement Crisp**

Haunted by dreams

The mysterious landscape of dreams in which desires, fears, ideal loves, are seen is the setting for *Eidolon*, Kim Brandstrup's newest piece, commissioned by Rambert Dance and given its first performance on Thursday at the Swan, High Wycombe. Brandstrup's argument is that his protagonist, *I*, – is haunted by an elusive dream-creature, a Woman in Red. He is indifferent to another woman (a Girl in Grey), but when the beloved of his dreams finally becomes accessible, he rejects her real self as unworthy.

The piece is odd, dense, cast in that fluid, almost hallucinatory dance-style which Brandstrup has made his own – his cinema studies as a young man taught him the dramatic virtues of cross-cutting and multiple images. It is set, so suggest the dress and manners of the cast, in turn-of-the-century Vienna. (The good Dr Freud's consulting rooms are not far away. The hero, the excellent Laurent Cavanna, even lies on a bed-cum-couch as his dreams – and his *I* – are exposed).

The action works on a level of suggestion rather than statement, and the worlds of reality (in which the characters are clad in shades of grey) and dream (the Woman dressed in red and her two guards, who boast rapiers and military jackets also red in tone) are forever mingled: it cannot be without significance that the women's grey skirts have a red under-layer.

What Brandstrup has done, as so often in the past with creations for his Arc Dance troupe, is to fix atmosphere rather than overt drama for us – I recall the haunted, haunting feel to his version of *The Dybbuk*, and the brilliant evocation of Mexico in his recent *Saints and Shadows*: in both, suggestion made sense as narrative. In *Eidolon*'s case-history, dreams lead to no happy resolution for *I*. At the close, the Woman in Red's costume is carried on as a trophy; she, now in underclothes, becomes a sad outcast. The dream has been made real, stripped of its allure, and exorcised thereby. Dreams are a landscape through which the dreamer takes his way, stumbling or hurrying, pursued or pursuing, and it is a virtue of this allusive – and truly dream-like – choreography that we so strongly sense the uncertainties of *I*'s emotions.

Brandstrup is helped by an atmospheric score from the young Danish composer Kim Helweg, well argued by London Musici under Paul Hoskins. Design, by Brandstrup and Liz Reid, with costumes by Sasha Kier, is apt, elegant, unfussed. The dancing looked admirably secure: Laurent Cavanna's Woman in Red is Sarah Warsop, his Girl in Grey is Didy Veldman: all are fine.

Eidolon is part of a series of imaginatively-varied triple bills being toured this autumn by Rambert Dance. Well worth seeing.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Maria Bayo: recital by the soprano, accompanied by pianist Juan-Antonio Alvarez-Parejo. The programme includes works by Canteloube, Rodrigo, Obradors and Granados; 8.15pm; Oct 16

JAZZ & BLUES
Bimhuis Tel: 31-20-6233373
● Rick Margitza – Jeff Gardner Quartet: saxophonist Rick Margitza, pianist Jeff Gardner, double-bass player Lars Danielsson and drummer John Vidacovich perform jazz music; 9pm; Oct 15, 16

BALTIMORE

EXHIBITION
Baltimore Museum of Art Tel: 1-410-396-6300
● Landmarks in Print Collecting: Masterpieces from the British Museum: travelling exhibition including some 100 works from the Britsh Museum's collection of more than 2m prints. Together, these works chronicle the history of western printmaking and provide a historical account of the British Museum's print collection. Some of the artists included are Dürer, Gauguin, Hopper, Kirchner, Manet, Master E.S., Munch, Rembrandt, Schongauer, Seghers, and Toulouse-Lautrec; from Oct 16 to Jan 5

BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Amsterdam Loeki Stardust Quartet: perform works by de Victoria, Gombert and Ortiz; 7.30pm; Oct 19

OPERA
Staatsoper Unter den Linden Tel: 49-30-20354438
● Salome: by R. Strauss. Conducted by Wolfgang Rennert and performed by the Staatsoper Unter den Linden. Soloists include Ute Trekel-Burckhardt and Andrea Bönig; 8pm; Oct 16

BIRMINGHAM

CONCERT
Symphony Hall Tel: 44-121-2002000
● City of Birmingham Symphony Orchestra: with conductor Claus Peter Flor perform Bruckner's Symphony No.8; 7.30pm; Oct 16

COPENHAGEN

CONCERT
Tivoli Concert Hall Tel: 45-33 15 10 01
● Swedish National Symphony Orchestra: with conductor Joseph Swensen and tuba-player Jens Bjorn Larsen perform works by Vaughan Williams and Morthensson. Part of the European Radio Symphony Festival; 8pm; Oct 16

HELSINKI

OPERA
Opera House Tel: 358-0-403021
● Insect Life: by Kalevi Aho. Conducted by Pertti Pekkanen and performed by The Finnish National Opera. Soloists include Heikki Keinonen, Ritva-Liisa Korhonen and Anna-Lisa Jakobson; 7pm; Oct 17

LONDON

EXHIBITION
Tate Gallery Tel: 44-171-8878000
● Hans Hartung. Works on Paper 1922-56: exhibition featuring more than 100 drawings by the German-born artist Hans Hartung (1904-1989). The show explores his precocious discovery of gestural abstraction while still a teenager in Dresden, and follows his development to the height of his success in the mid-1950s. The works on display are selected form the artist's own collection, held by the Fondation Hans Hartung et Anna-Eva Bergman at Antibes; to Oct 27

OPERA
Royal Opera House – Covent Garden Tel: 44-171-2129234
● Siegfried: by Wagner. Conducted by Bernard Haitink and performed by the Royal Opera. Soloists include Siegfried Jerusalem, Deborah Polasky and John Tomlinson; 5pm; Oct 16

MONTREAL

DANCE
Place des Arts Tel: 1-514-285-4360
● Baseball: a choreography by Moses Pendleton, performed by Momix to music by Dead Can Dance, Queen, James Brown and Loreena McKennitt; 8pm; Oct 17, 18, 19

NEW YORK

EXHIBITION
Solomon R. Guggenheim Museum Tel: 1-212-423-3600
● Ellsworth Kelly: this exhibition is the first complete survey of the artist's painting, sculpture, works on paper, and photographs. Featuring more than 250 objects and spanning five decades, the display offers insight on Kelly's contribution to the development of American abstraction; from Oct 18 to Jan 15

JAZZ & BLUES
Carnegie Hall Tel: 1-212-247-7800
● The Carnegie Hall Jazz Band: with conductor Jon Faddis and special guests Lennie Niehaus, Flip Philips and James Moody perform jazz music; 8pm; Oct 17

OPERA
Metropolitan Opera House Tel: 1-212-362-6000
● The Bartered Bride: by Smetana. Conducted by James Levine, performed by the Metropolitan Opera. Soloists include Stratas, Kuebler, Bogachov and Plishka; 7.30pm; Oct 16

PARIS

CONCERT
Salle Gaveau Tel: 33-1 49 53 05 07
● Josef Suk and Josef Hala: the violinist and pianist perform works by Janácek, Beethoven and Brahms; 8.30pm; Oct 16

EXHIBITION
Musée du Louvre Tel: 33-1 40 20 50 50
● La griffe et la dent. Sculptures d'animaux par Antoine-Louis Barye: a tribute to the French animal sculptor Antoine-Louis Barye (1795-1875). The exhibition features 90 sculptures in stone, plaster, wax or bronze, and 50 watercolours and drawings from the collection of the Musée du Louvre and other French collections; from Oct 16 to Jan 13

OPERA
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● Cosi fan Tutte: by Mozart. Conducted by Jean-Claude Malgoire and performed by La Grande Ecurie et La Chambre de Roy. Soloists include Danielle Borst and Sophie Fournier; 7.30pm; Oct 16

SAN DIEGO

EXHIBITION
Museum of Photographic Arts Tel: 1-619-238-7559
● An American Century of Photography: From Dry Plate to Digital/ Part II: second part of this exhibition which through about 200 photographs, dating from 1890 to the present, surveys the art of American photography. The exhibition represents more than 130 artists, including Gertrude Kasebier, Alfred Stieglitz, Clarence H. White, Margaret Bourke-White, Man Ray, Paul Strand, Henri Cartier-Bresson, Diane Arbus, Cindy Sherman, Andy Warhol and others; from Oct 16 to Dec 1

VIENNA

OPERA
Wiener Staatsoper Tel: 43-1-514442960
● Tosca: by Puccini. Conducted by Stefan Soltesz, performed by the Wiener Staatsoper. Soloists include Eliane Coelho, Peter Dvorsky and Wicus Slabbert; 7.30pm; Oct 16

ZURICH

CONCERT
Tonhalle Tel: 41-1-2063434
● Tonhalle-Orchester: with conductor David Zinman and horn-player Barry Tuckwell perform works by Haydn, Mozart and R. Schumann; 7.30pm; Oct 16, 17

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European Money Wheel

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Financial Times Business Tonight

Martin Wolf

Reasons to be cheerful

After a dismal start to the 1990s, Europe is overcoming the problem of high real interest rates, one of the greatest obstacles to growth and employment

For the European Union, the 1990s have been years of disappointment. Begun with the high hopes embodied in the completion of the single market and the Maastricht treaty, they have been marred by low growth and rising unemployment. Member states are struggling to put their budgets in Maastricht-mandated order.

Why have things gone so wrong? Are they likely to improve? The answer is that Europeans suffered from bad luck and made serious mistakes, but the economy is not doomed to fail. It could enjoy pleasant surprises in the years ahead.

Between 1990 and 1995 the economy of the European Union expanded at a compound annual rate of only 1.5 per cent, while the rate of unemployment rose from 8.1 per cent in 1990 to 11.2 per cent in May this year. The European body economic is ailing. Yet performance was just as bad between 1980 and 1984, and then recovered strongly in the second half of the decade. Things may be dismal. But Europe's economy is not a hopeless case.

Since Germany and France generate 46 per cent of the EU's gross domestic product, Europe languishes when they perform poorly. France's economy expanded at a compound annual rate of only 1.1 per cent from 1990 to 1995. Boosted by reunification, German growth was initially stronger. But rapid growth was over by 1992: Germany has struggled ever since and growth between 1990 and 1995 averaged only 2.1 per cent.

Monetary authorities – the Bundesbank and the Bank of France, for example – insist this dismal state of affairs is nothing to do with them. They protest too much. Policy mistakes have been made. For these, central bankers bear at least part of the blame.

This does not mean that their favoured villain – "structural factors" – has no bearing on performance. Real compensation per employee in the European Union has risen by 60 per cent since 1970, but by less than 20 per cent in the US, according to the International Monetary Fund's most recent *World Economic Outlook*.

Higher living standards are desirable. But Europe has had too much of this good thing. High costs have caused stagnant employment and rising unemployment, thus imposing a heavy burden on public spending to support the able-bodied jobless.

The IMF estimates the "natural rate of unemployment" in Germany, France and Italy at between 8 and 10 per cent of the labour force. Such estimates are uncertain. But the latest economic survey of Germany from the Organisation for Economic Co-operation and Development demonstrates why people who could be gainfully employed might choose not to be.

The difference between the cost of workers to an employer and what they take home is close to 50 per cent of gross labour costs in Germany, France and Italy. In Germany the ratio increased by 3.5 per cent of labour costs between 1990 and 1994, and in France by nearly 2.5 per cent. In the UK and the US, by contrast, the gap is between 30 and 35 per cent and has hardly changed at all in the 1990s.

Generous unemployment and welfare benefits ensure that many workers find themselves little worse-off if they remain non-employed. In 1995, as a result, only 38 per cent of German adults between the ages of 55 and 64 were in work; in France the ratio was 34 per cent.

High taxes, generous benefits and copious regulations help explain the relatively high unemployment and reduced dynamism of the European economy since the mid-1970s. But they do not explain the exceptionally feeble growth of the 1990s. After all, these structural constraints have been around for decades. Some should even have been ameliorated by the single market programme.

Even pessimistic observers would agree that France should be able to sustain growth of between 2 and 2½ per cent a year. Germany ought to be able to do at least as well. So why has growth been so much slower even than this? A good part of the answer is a mixture of bad luck and serious mistakes.

It was bad luck that the German economy was caught in the turmoil of reunification, which generated an inflationary expansion, then tight monetary policy and, in the long run, large transfers from the west German taxpayer. It was a mistake – largely a French one – to prevent the D-Mark from appreciating. The result was the currency crises of the early 1990s.

Similarly, it was bad luck that the dollar was periodically weak. But the Bundesbank failed to appreciate how damaging the high D-Mark had become and how misleading its beloved monetary targets had become. Even its policy of taking small interest-rate steps can be criticised.

Yet, with luck and judgment, these misfortunes are in the past. German monetary policy is fairly expansionary, with the repurchase (or "repo") rate down to 3 per cent. European interest rates have also converged: France, for example, has an intervention rate of 3.25 per cent, while the yield differential on 10-year bonds vis a vis Germany has disappeared. French and German nominal and real effective exchange rates have also weakened somewhat since their peaks in 1995.

Most important, one of the greatest obstacles to growth over the past 15 years – very high real interest rates – is also being tackled. As the chart shows, even Germany has suffered from high real interest rates, but it has been a particularly severe problem for countries with initially limited inflationary credibility, such as France.

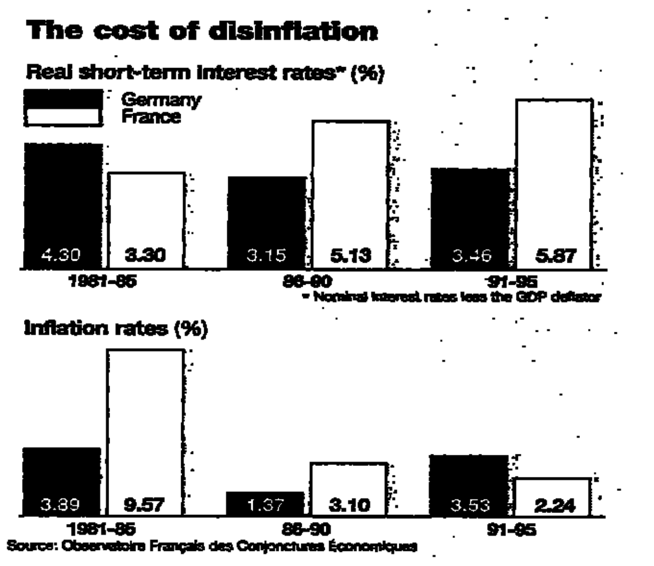
Mr Jean-Paul Fitoussi, president of the Paris-based Observatoire Français des Conjonctures Economiques, argues (in *Revue de l'OFCE*, October 1996) that high real interest rates have been the principal cause of weak growth. They have even offset the beneficial effects on investment of improvements in the share of profits in national income. In France, for example, the share of operating profits in national income has risen by 5½ percentage points since 1982, but even this shift has not engendered the expected buoyancy in investment.

One reason for high real interest rates has been the returns available in the developing world. A more important one has been the big underlying fiscal deficits of industrial countries, something that is now being rectified – smoothly in the US, more brutally in Europe.

In addition, there has been a risk premium in the interest rates of countries with a poor long-term record of monetary instability. Within the exchange rate mechanism, this has been compounded by currency crises, which occasionally forced France to pay much higher rates of interest than Germany – both short and long term. The dire consequences for the French cost of borrowing are shown in the chart.

However painfully, credibility seems at last to have been won. If this is sustained, fiscal consolidation continues and the Bundesbank responds appropriately, demand should at least grow in line with underlying economic potential. Moreover, in this more favourable context, both Germany and France can more easily address the structural obstacles to putting more of their people to work.

The 1990s have started dismally. But this does not have to continue. Europe should not be written off. It was a mistake to do so in the second half of the 1980s. It is likely to be a mistake again now.



Essential banking for the 21st century

Banks need to define their core businesses in the computer age, argues George Graham

Ask a British banker who his biggest competitors will be over the next five years and he is as likely to answer Microsoft as Midland.

But Barclays Bank, which yesterday announced that it was teaming up with Microsoft to offer a home computer banking service, has decided to run the risk of sleeping with the enemy.

It was, after all, Mr Bill Gates, Microsoft's chairman, who in 1994 derided the banks as "dinosaurs" and boasted to a Microsoft sales conference: "We can bypass them."

Mr Gates has since made his peace with the bankers. He claims that what he meant to say was that many bank computer systems were dinosaurs; he denies any intention of taking transaction fees on payments processed through Microsoft's home banking software (the Barclays service will be packaged with the MS Money financial planning programme); and in any case, he quipped recently, the dinosaurs lasted for 200m years.

But Barclays' partnership with Microsoft raises the same questions about the future of banking as National Westminster Bank's agreement to supply a banking service for food retailer Tesco to market under its own label – and the Co-operative Bank's decision to outsource its cheque processing to Unisys, the computer services group.

The question in all three cases is which parts of the business are so essential to a bank that it cannot risk allowing a potential rival to get a foot in the door.

A bank which gets the answers wrong could see its new ally stealing its traditional customers.

That was the fear behind the formation of the Integrion alliance launched last month between 15 North American banks and the IBM computer group. The plan is to develop home banking systems free from the domination of Microsoft or Intuit, its rival in the personal finance software market.

Mr Hugh McColl, chairman of NationsBank, the fourth largest in the US and part of the Integrion group, says that the real battle is for control of the electronic transactions infrastructure.

"If Microsoft controls it, that makes commodities out of all banks," he says.

On the other hand, banks also risk running so hard to escape the clutches of Microsoft that they end up offering inappropriate services: they may be proprietary but not what the market wants.

Mr Jim Bailey, executive vice-president in charge of worldwide payments and transaction services at Citibank, one of the world's few truly global banks, uses an analogy with the ice-makers who once brought ice to India. "Not one of those companies survived to become refrigeration manufacturers. We cannot afford to be like the ice-makers," he says.

To avoid such a fate, banks are attempting to define their core activities of the future. Academic studies suggest that once they pass a threshold of about $20bn in assets – about one fifteenth the size of Barclays – banks actually get less efficient overall as they get bigger.

Only a few activities, such as cheque and credit card processing or mortgage lending, can be turned into the sort of large operations that produce economies of scale.

For Barclays, these choices have meant shutting down its share registrar division. Lloyds TSB, on the other hand, has kept share registration but abandoned most investment banking activities.

Take the process a step further, however, and the decisions could become more painful. How many bankers can claim to be as good at marketing and customer management as retailers such as Marks & Spencer or Tesco? How many can honestly argue that they are better at data processing than EDS or Unisys?

"It's arguably more important to provide the engine than the name on the car," suggests Mr Peter Burt, chief executive of Bank of Scotland.

Barclays' alliance with Microsoft falls a long way short of abandoning the Barclays brand name. Furthermore, the importance of personal computer banking as a distribution channel should not be exaggerated. Even in the US, PCs accounted for only 1 per cent of banking transactions last year, a figure dwarfed by telephone banking and even by the traditional branch counter.

"For the time being it's a niche product. We are not talking about something which is going to blow the market away in three years," comments Mr John-Eric Bigbie, a banking industry specialist at consultants Mitchell Madison in London.

But even in the longer term, when PC banking seems sure to grow in importance, banks still have considerable advantages over their competitors in the provision of financial services.

Some of those advantages, such as regulatory protection and sheer customer inertia, are not exactly tributes to the banks' effectiveness.

Others, however, are genuine assets which need not be eroded by a change in the way consumers look for banking services: most notably, the trust people place in their banks to handle their money honestly.

Banks may yet go the way of the ice-makers, but if they do, it will not be because they got into bed with Microsoft in 1996 for their home banking software.

LETTERS TO THE EDITOR

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Deeply disturbing view of Emu arguments

From Mr Tim Melville-Ross.

Sir, The style and presentation of your leader about European monetary union ("New money for Europe", October 14) suggests it is intended to be your definitive word on the subject. If so, it is deeply disturbing that the UK's leading financial newspaper should be so cavalier and ill-informed about economic arguments for and against Emu, and so influenced by the politics of the case as to lose sight of the unbreakable connection between good economics and good politics.

You say Emu is part of a historic process in a way which suggests an inevitability and desirability that is far from the truth. You talk about the effectiveness of greater flexibility in prices and labour markets in easing Emu strains. But the main problem about Emu is that the UK would lose its ability to set interest rates at levels appropriate to British economic conditions.

The UK economy behaves so differently from others in Europe that rates set by a European central bank could be quite inappropriate. Thus flexibility in prices could lead to rampant inflation in the UK should interest rates be set by the central bank at a level much too low for British conditions. If rates were too high, there would be the risk of recession and high unemployment.

And from where do you get flexibility in the European labour market? The British tradition is to resist moving from one district to another, never mind to a different country with a different culture, language and social security system.

On the surface, there is some "political unity on the challenges of the moment". Leave aside the silent support throughout Europe for the fact that Britain debates the key European issues, and consider the political unity (except in the UK) around the Social Chapter of the Maastricht treaty. Where is the consistency between this interference in the workings of labour markets and your suggestion that Emu strains would be eased by the flexibility in them?

In an article which seeks to look forward, why do you still allude to the UK's "depressing record of rising wages and prices followed by devaluation"? Have you not noticed (as the OECD and International Monetary Fund have) that the UK's economic performance is now among the best? And all this outside an exchange rate mechanism that would be a precursor to the even greater rigidities of the single currency.

I wonder just how much influence Britain would have inside Emu. Outside, the UK retains flexibility to cope with still-volatile shifts in international trading conditions. Moreover, Britain's European partners might thank the UK for sustaining a vibrant economy outside Emu with which they can trade, thus enhancing their own living standards?

**Tim Melville-Ross,
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Complaint is ironic

From Mr Steven Perkins.

Sir, Re your report "Indonesia faces WTO battle on car policy" (October 3), the expectation that Japan is to complain to the World Trade Organisation about Indonesia's "national" car plan must be hugely ironic to all who have worked for fair reciprocal auto trade between Japan and the UK.

To support its complaint against Indonesia, Japan is to cite a WTO article which stipulates that imports cannot be treated differently from locally manufactured products.

Have the Japanese forgotten so quickly their own "national car plan" which has successfully restricted the sales of European cars to an infinitesimal share in Japan over the past 40 years?

In an orgy of mixed metaphors, motes, eyes, level playing-fields and kettles spring to mind.

**Steven Perkins,
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London SW18,
UK**

Cuba deserving of Europe's support

From Dr Kees Jan Kuilwijk.

Sir, Many articles have been written about titles III and IV of the Helms-Burton Act. Although these titles contain provisions which infringe public international law and World Trade Organisation law, they are not the most objectionable parts of Helms-Burton. The most offensive provisions can be found in Section 2. This, which so far has received little attention, lays down the official findings of the US Congress on which the law is based.

According to Congress, the Castro government threatens international peace and security by engaging in acts of armed subversion and terrorism such as the training and supplying of groups dedicated to international violence.

The Cuban people deserve to be assisted in a decisive manner, Congress states, to end the tyranny that has oppressed them for 36 years, and the continued failure to do so constitutes ethically improper conduct by the international community.

Our ethically improper conduct? It surely is ethically proper then to try and starve an entire nation to death. It must have been ethically proper to grant asylum to Castro's predecessor, dictator and mass murderer Fulgencio Batista, to try and assassinate Fidel Castro, and to try and invade a sovereign state, thereby killing innocent people.

The Soviet Union is gone. There is no longer a communist behind every tree. Most communists are called socialists now and that's fine. There are no more Soviet missiles in Cuba to protect the island nation from another Bay of Pigs invasion and fortunately the US still has its military base at Guantanamo, on Cuban soil.

The Cuban people indeed deserve to be assisted in a decisive manner. The Americans are not going to. They are too proud to forgive a man who has given them the finger. So we in Europe should. Through aid and trade, no matter what Congress says.

**Kees Jan Kuilwijk,
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Tax-free opportunity to go up in smoke?

From Mr David Buckley.

Sir, I am delighted that Mr Padraig Flynn, EU social policy commissioner, "is to launch a drive for higher taxes on cigarettes ..." ("Brussels plans new assault on smoking" October 11). However, you failed to mention that many Commission employees, presumably including Mr Flynn, have the opportunity to purchase tax-free cigarettes every Christmas.

It will be interesting to see whether Mr Flynn chooses to include European Commission employees in his "drive for higher taxes".

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Tuesday October 15 1996

Protest against Austria's club

The harsh blow suffered by Austria's political establishment in the country's first European election is neither unexpected nor undeserved. But it is profoundly worrying that a demagogue preaching far-right, anti-European Union policies has been the main beneficiary of voters' disillusionment.

By capitalising skilfully on discontent to secure nearly 28 per cent of the vote, Mr Jörg Haider and his Freedom party have dispelled several comforting illusions about Austrian politics. It can no longer be argued that the natural ceiling for Mr Haider's support is somewhere below a quarter of the electorate. Moreover, the fact that about half the blue-collar voters opted for the Freedom party shows that not even "Red Vienna", with its staunchly left-wing political tradition, is immune to xenophobia. In Austria as well as France, unhappy voters can jump from the left to far right.

Nor does Mr Haider's reputation appear to have suffered any lasting damage from a notorious speech last year in which he lauded the "decency" of an audience that included Nazi war veterans. It may be true that last weekend's European and local election results would not be repeated in a national poll where real power was at stake. But with 21 members of the European Parliament, the Freedom party has gained a voice in Strasbourg and Brussels that will bring comfort to chauvinist movements which are testing the limits of respectability in other European countries.

Some of the sources of Austria's discontent are familiar from other parts of the EU: the onset of austerity in a society which had until recently taken prosperity for granted, and mounting resentment of the criteria laid down for admission to the single currency. But the electorate's deepest grievance is specific to Austria: resentment of the cronyism and patronage practised jointly by the Social Democratic party – the big loser in the elections – and its junior coalition partner the People's party.

These two groups, which used to share over 90 per cent of the vote and now have less than 60 per cent between them, have a grave responsibility to restore voters' faith in mainstream politics. Having exaggerated the immediate benefits of EU membership, the establishment parties have only themselves to blame if voters now feel cheated.

In any case, the political costs of austerity and adaptation to the EU might be manageable if the two coalition parties could somehow address the electorate's fundamental complaint that they have run Austria like a cosy club.

NZ balance

Having attracted world attention with its innovative fiscal and monetary policy, New Zealand might have been expected to bring off its political experiment with aplomb. But the first elections under proportional representation have thrown up a messy result typical of such systems.

One minority party, the nationalist New Zealand First, is the key to forming a coalition. Negotiations are likely to be long, but it would be premature to conclude that the new system is a failure, or that the result indicates rejection of New Zealand's unique brand of economic discipline which has restored government finances and all but eliminated inflation.

The high turnout suggests voters are enthusiastic about PR. The hiatus that now seems likely reflects the inexperience of New Zealand politicians in building coalitions, a skill they will presumably learn over time. Moreover, the Fiscal Responsibility and Reserve Bank Acts provide a firm framework for interim government.

That said, the electoral drift leftwards suggests there is a limit to popular support for fiscal and monetary rigour in the face of erosion of health, education and welfare facilities. Memory of the 1980s economic crisis which made harsh economic reform acceptable is fading.

One temptation is to succumb to protectionism to offset rigour at home. New Zealand First wants to restrict sales of New Zealand assets to foreigners, even to the extent of unwinding the recent NZ$2bn sale of the Forestry Corporation to a consortium including Citic of China. Both it and the Alliance party want a more assertive trade policy.

Such pressures are a natural response to domestic deregulation. Ms Helen Clark, the Labour leader, will have to be vigilant in resisting them if she eventually finds herself leading a coalition with these two parties. Equally, though, she will have to be careful to avoid backsliding on the monetary and fiscal front.

Labour's plan to broaden the band for inflation targets is risky. The new ceiling of 3 per cent – as opposed to 2 per cent at present – could quickly become seen as a norm. There is more room for flexibility in fiscal policy, where the prospect of continuing surpluses creates some choice between tax cuts, more spending or repaying debt.

Even here, however, some caution is required. New Zealand's financial markets have recently been buoyed by an inflow of foreign money which has been taken as a sign of international confidence. But the high interest rates that have attracted this flow reflect fears among domestic investors that the economic experiment will be diluted. The markets will be unforgiving if the new government gets its balance wrong.

Ebb tide

The decision by Southern Water to scale back its overseas ventures is the latest in a succession of moves by Britain's utilities to abandon their earlier ambitious acquisition plans. The moves are more than welcome. Rarely has so much been laid out for so little reward, especially by the water industry. Yet it would be simplistic to put all the blame on the managers. The losses incurred in the great post-flotation spending spree stemmed directly from the government's policy of privatising natural monopolies as public limited companies.

The water industry did not appear well-equipped to satisfy the equity market's demands for growth when it was privatised. That the companies have done so well for shareholders reflects efficiency gains, together with the hard bargain driven in 1989 by the industry bosses over the price regime and the shape of their balance sheets.

Yet the scope for improved efficiency was not appreciated at the time. Nor were all the bosses aware of how good a deal they had struck with Whitehall. Most assumed that their only hope of generating sufficient growth to escape predatory attention in the longer run was to pursue a hopelessly unfashionable strategy of conglomeration.

The resulting diversification, which generated a bonanza in fees for the City, did little for shareholders and less for consumers. Information about the core businesses became less transparent and the existence of non-core associates created potential conflicts of interest. The risk, which has recently been highlighted by Mr Ian Byatt, the water regulator, is of cross-subsidies whereby the costs of unregulated activities are passed on to the consumer.

While the retreat from conglomeration is all to the good, it still leaves the natural monopolies with a corporate structure in which shareholders and consumers are locked uncomfortably in a posture of permanent conflict. The consumer is excessively dependent on the regulator to avoid being over-charged and under-served. And where regulation proves unpredictable, as in energy, managers have a continuing incentive towards conglomeration in order to escape regulatory risk.

A change of government could soon offer scope for a rethink. Sadly Labour has been more anxious to second-guess the regulators with its windfall tax than to find a capital structure which strikes a less contentious balance between consumer and shareholder. It would do better to pick City brains about swapping equity for fixed-interest or other forms of security that are less inimical to the consumer interest.

Europe's artful dodgers

Clay Harris investigates the cold-calling foreign exchange salesmen who take advantage of gaps in financial frontiers

"Come on, lads, spank the punters!" The ringing exhortation of a manager at Scandex Capital Management in Copenhagen is echoed in offices across Europe as teams of cold-calling salesmen hit the telephones in a campaign to separate investors from their money.

This time, they are offering the chance to speculate, through investments using high levels of borrowing, on daily movements in the foreign exchange market. Many investors find the result is indeed a good thrashing. All too often, they have lost all or most of their money.

Promoters of the schemes have capitalised on gaps in Europe's financial frontiers – the currency investments they offer are not controlled in many countries and have only recently been regulated in others. The cold-callers typically seek the jurisdiction of least regulation and often avoid selling into the local market, to keep a low profile.

But the regulators have, it appears, caught up with Scandex. Last week, Britain's Securities and Investments Board issued writs in the High Court in London, seeking injunctions against the Danish company and Mr Jeremy Bartholomew-White, its British managing director and shareholder. The UK regulator alleged that Scandex breached the Financial Services Act by offering unauthorised investments and making misleading statements and cold-calls.

The previous week, Finanstilsynet, the SIB's Danish counterpart, had closed Scandex, banning it from making sales calls or opening accounts. "They are allowed to wind up positions in the interest of investors," the regulator said.

Mr Bartholomew-White and his associates including Mr Ian Farrell (a co-owner) and Mr Adrian Jewkes, who acted as "consultants", and Mr Tom Sherston, who ran its day-to-day trading operation – have a track record in similar UK companies. But Scandex is not the only or even the largest cold-calling operation active in Europe.

Nordex, an unrelated company, has been the subject of many complaints by customers from Ireland to Zimbabwe. Although a Danish office was closed by the authorities and raided by police at the end of August, it continues to do business from Switzerland. And Laurion, a Nordex-linked company, started in Hamburg, moved to Barcelona, but closed there once the Spanish regulators learnt of its presence. Other companies solicit business across borders from countries including Switzerland, Spain, Denmark, the UK and the US.

But Scandex gives a rare opportunity to peek inside the world of high-pressure cold-calling, a realm of "openers" and "loaders" where a tenet is "once a mug, always a mug". Internal details of its operation have emerged because Scandex lost the loyalty of people with inside knowledge – employees who failed to receive pay, more than £30,000 in all, to which they felt they were entitled. Or they "stiffed the staff", as Mr John Jorden might say.

Mr Jorden, who worked in Copenhagen for Scandex for five weeks until October 4, is well-qualified to assess its cold-calling. Under his original name, Jonathan Greenwood, he was briefly notorious in the City of London in the 1980s.

He was a director of Greenwood International Securities, a licensed share dealer wound up in 1987 by the Department of Trade and Industry. Greenwood used cold-calling to push dubious shares on a public whose appetite had been whetted by privatisation issues.

"What was amazing was how many bit-players in the late 1980s and early 1990s started their careers at Greenwood International," recalled Mr Jorden. "I'd often pick up the FT and find this guy censured and think, 'Aha, Greenwood old boy'." Others involved in today's currency operations learned their trade at LHW Futures, another infamous cold-caller of the same era.

In January 1990, Mr Greenwood and his sister, then a civil servant at the Office of Fair Trading, were acquitted on insider dealing charges after the Crown Prosecution Service offered no evidence. He was convicted, however, of using a false passport. He changed his name to Jorden to allow his wife and children to escape the limelight.

Seven weeks ago, Mr Jorden joined Scandex after answering an advertisement in London's Evening Standard and attending two interviews at the Institute of Directors' headquarters. He says he was open with Scandex about his former name and history. His August 8 job offer was addressed to "John Greenwood".

"I was asked at my second interview did I have any leads of my own," Mr Jorden said. One of the most valuable assets of a cold-calling business – and its salesmen – is a list of prospective customers, the more "qualified" (that is, likely to buy) the better.

"With the experienced guys anyway, they've probably worked in shares, in foreign exchange, in gold, in *jewels*, in *old coins*. There's an old cliché – 'once a punter always a punter'." The same cows can be milked over and over.

According to former salesmen, Scandex used leads from, among others, London-based Euro Currency Corporation. Mr Bartholomew-White and Mr Farrell were directors and owners, and Mr Sherston the trading director, at Euro Currency, which ceased trading in April.

A customer list from a company such as Nordex, in which many had lost money, was considered a golden source for leads, says Mr Jorden. "If you 'phoned up someone who's just lost $50,000 and you're trying to sell them foreign exchange, you'd say: 'If you lost your wallet in Safeway, would you go to Tesco? I'm not saying I can make you back all this money. What I'm saying is we'll play it straight, we should be able to get back some.' Definitely, once a mug, always a mug."

Ice cold-calling is more hit and miss. After most replies from a Scandex mailing to Sweden were delivered by mistake to Nordex, sales staff were obliged to use sources including the Cork telephone directory, a Greek company database and Yellow Pages listings for Gothenburg dentists.

This, says Mr Jorden, was part of his typical spiel: "We're experts in the field of foreign exchange and money market investments, taking advantages of the movement in currency prices to make very good profits for our corporate and private clients. I have a corporate brochure that I'd like to send you if you'd be interested in this very *speculative* but very *profitable* form of investment.'

"More often than not they'd say 'yes'. You'd then try to qualify them further. 'You do realise that we have a minimum investment of $100,000 for a corporation,' which sometimes would put them off. But people like to boost themselves up and say 'that would be no problem'. Or if they said, 'well, I don't *know*', you'd say: 'For private investors, we'd start off a little bit less than that'."

Once the "opener" had persuaded the customer to send his money, the account was handed to account managers. In some trading operations, these are known as "loaders" because their role is to persuade the client to send more money, especially after sustaining losses.

In an interview last week, Mr Bartholomew-White denied that Scandex used loaders. "We don't have that type of operation." He dismissed as "the comments of disgruntled, failed salesmen" Mr Jorden's account and those of other former Scandex staff who asked not to be identified. He said they would be paid as soon as it was legally possible.

How did clients, such as Mr Norton Jensen of Rochester, Kent, who saw 93 per cent of his £8,000 investment vanish in a month, lose their money so quickly?

Mr Bartholomew-White said all Scandex customers were advised three separate times of the risks attached to their investment. "They are aware of the risk. People make some money but they carry on and look for a bigger return."

Former sales staff, however, point to several factors. Their own commission of 10 per cent was paid once an account had been traded 10 times. "Geared" 25 times, a deposit of $20,000 would control a position of $500,000, magnifying potential profits and losses. "Stop-loss" mechanisms could limit losses on each trade to $2,000, for example, but even if they stopped there, the entire balance could quickly disappear in a relatively few trades.

Since traders' commissions were based on high volume, there was an incentive to "trade and re-trade as much as possible", according to one salesman. One man in particular had "basically raped, pillaged and looted just about everyone", says Mr Jorden. On one day, when a screen went down, more than £40,000 was lost when that man traded "blind". The situation worsened when extra bonuses were introduced for daily volume over $30m.

But, Mr Jorden says, "there were a couple of very decent, honest experienced traders who made the clients money – no fortune, but they were playing it very steadily, very cautiously. They were brought in because Scandex realised that the only way they were going to keep a licence was by playing it straight". Another salesman said, however, that those two traders left when their customers' accounts were traded into loss behind their backs.

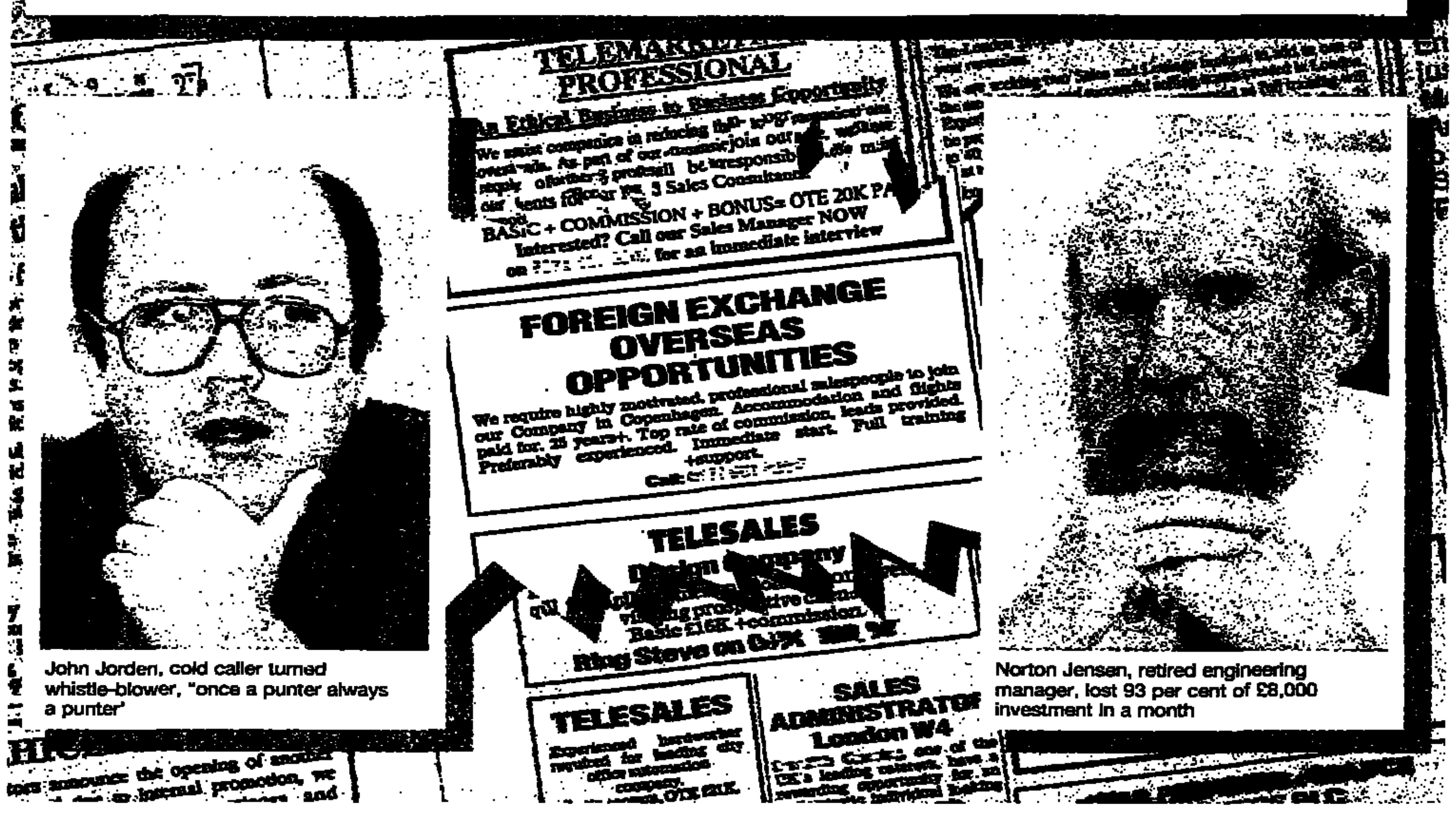
Mr Bartholomew-White says Scandex plans to appeal against the Danish decision not to grant it a permanent licence. A licence in Denmark would have been a "passport" allowing Scandex to operate throughout the European Union under the Investment Services Directive. "This company has been treated totally different to any other company in Denmark." But the Danish regulator denies this. "We treat all applications equally," says Finanstilsynet.

Scandex also intends to sue the Copenhagen office of Deloitte & Touche, its former joint auditor which prepared the audit report which led to the resignation of the company's Danish directors and its lawyer. On Friday, Mr Bartholomew-White said he was "comfortable" that the SIB legal action "could be dealt with in a proper and orderly fashion".

But even if Scandex cannot be rescued, its backers have contingency plans to re-open elsewhere in the EU, according to Mr Jorden.

Mr Bartholomew-White makes clear he is not giving up because of the setbacks. "I am a person who doesn't want the world to stop spinning simply because I've been mistreated." Although he has no immediate plans, "that's not to say there won't be. We believe we offered a good service. I'd like to believe we'll offer it again." And those valuable customer leads? "They're the property of the company."

Losers at both ends of the line



John Jorden, cold caller turned whistle-blower, "once a punter always a punter"

Norton Jensen, retired engineering manager, lost 93 per cent of £8,000 investment in a month

· O B S E R V E R ·

On a wing and a prayer

■ Does Richard Branson have a Japanese admirer?

Hideo Sawada, 44-year-old founder of the country's largest discount air ticket agency, yesterday unveiled plans to launch Japan's first new airline since the formation of Japan Airlines in 1951. And yes, Sawada says he was inspired by Virgin Atlantic.

Branson-style, Sawada's new baby would hope to take on JAL, All Nippon Airways and Japan Air Systems – aiming, for example, to halve fares on the Tokyo-Sapporo route, the world's busiest. Extraordinarily, it looks as if he just might secure the blessing of the all-powerful transport ministry.

In a striking departure from past practice, the ministry has said it will welcome newcomers' applications for additional domestic routes opening next spring.

While fares were partly decontrolled in June, the ministry still allocates airport space, so Sawada will have to be on his best behaviour.

Of course one thing to do would be to invite the odd retired ministry official on to the company board – the infamous process of *amakudari*, or descent from heaven.

As so often in Japan, the new world still needs a bit of help from the old.

Dirty digging

■ There is more at stake, it would seem, than just the tussle of media giants in the battle over New York's public-access television channels.

A US judge is due to consider next week whether Republican mayor Rudolph Giuliani should be allowed to turn over one of the channels to Rupert Murdoch's 24-hour Fox News. He almost did it last Friday night. But in a last-minute ruling a New York judge decided that this might not fit with the mayor's responsibilities to use the channels for public-interest purposes and put a temporary stay on the plan – something that had been requested by Time Warner, the city's dominant cable TV company.

Giuliani's interpretation of what constitutes the public interest has certainly set New York tongues wagging.

The mayor, who faces a re-election battle next year, brushed off suggestions that he was acting to secure support from Murdoch's tabloid newspaper, his radio stations or his Fox TV network (which is already available to New York television viewers).

Given the famously Republican tone of the Murdoch media outlets, though, the denial had a hollow ring.

Perhaps to reinforce his claimed political neutrality, Giuliani has proposed handing over another of the city's free channels to Michael Bloomberg. The financial information entrepreneur has been hunting for cable-TV space for his own news channel.

Bloomberg conveniently voted Democrat in the last city election.

Wax works

■ India's scientific community perhaps wishes it had never heard of Ramar Pillai, the Tamil Nadu school drop-out who says he has been producing petrol from a "mystery herb" boiled in water.

Doubts first crept in over his startling claim when a vigilant scientist in Madras spotted Pillai was using a hollow spoon, from which petrol was pouring into his mixing vessel. Pillai then cried foul, saying the scientists invented the tale as a ploy to steal the secret of his wonder herb. Some opinion appeared to be swinging back in the young man's favour.

Now – only after swathes of officials and scientists had apparently been taken in – a government scientist has finally admitted: "We have found something wrong, but we are unable to clarify this at the moment."

And while some senior officials in Tamil Nadu still appear determined to give Pillai the benefit of the doubt, P.C. Sorcar Jr, one of India's leading magicians, is the latest to come up with his own theory.

Over the weekend, he spelled out how to repeat Pillai's trick, with hollow spoons, wands or receptacles, all containing petrol sealed in with a little wax which melts on boiling.

Pillai could "even wear a hollow thumb which releases liquid once it's pressed," says the old illusionist.

Watch out for some old-fashioned, scientific hand-wringing. Unlikely to produce anything but gallons of embarrassment.

Bouncing back

■ The prospect of Helmut Kohl outpacing Konrad Adenauer as Germany's longest serving post-war chancellor – he has only to sit out another 15 days to smash the record – has the commentators reaching for suitable metaphors.

A journalist on a weekend talkshow mused how Kohl "is like a rubber plant: we think he's old-fashioned and we don't like him, but we've got so used to him."

The Financial Times

100 years ago

Railways in Russia

A syndicate of American capitalists has been formed under the title of the Russian-American Manufacturing Company to establish extensive works for the manufacture of locomotives at Nijni-Novgorod. Contracts for machinery for the plant have already been awarded, the bulk of the work being placed with Philadelphia firms. The output is estimated at 200 engines per annum, and a thousand men will be employed.

50 years ago

U.S. Credit for Brazil

From our own Correspondent, San Paulo:- The presence of Mr William N. Martin, president of the Export-Import Bank, at the inauguration of the big industrial combine of Volta Redonda is the subject of much discussion here; as I learn the American banker intends to continue the discussions with the Brazilian Government for a U.S.$250,000,000 loan. A request for a loan had been presented by the Transport Minister, Edmundo Macedo Soares, some months ago in Washington, but no agreement was reached at that time as the American negotiators insisted that new loans could be granted only by the World Bank.

FINANCIAL TIMES
Tuesday October 15 1996

US grain group to plead guilty to price-fixing

By Laurie Morse in Chicago

Archer Daniels Midland of the US has agreed to plead guilty to price-fixing charges and pay $100m in fines – thought to be one of the largest penalties in a US criminal antitrust case.

The agreement effectively resolves all issues raised against the grain merchandising and processing company by the US government's four-year investigation into its global market practices. It also ends one of the most sensational episodes of espionage in US corporate history.

ADM said yesterday it had agreed to plead guilty to charges of anti-competitive practices involving lysine, an amino acid used in poultry and swine feed, and citric acid, used to produce soft drinks and other foodstuffs.

As part of the plea bargain, the company based in Decatur, Illinois, has avoided price-fixing charges involving the $3bn-a-year market in high-fructose corn syrup, its most important product. The settlement is also expected to conclude a separate Justice Department investigation into allegations that ADM stole trade secrets.

"This agreement constitutes a global resolution of all matters between the Department of Justice and ADM and brings to a close all Department of Justice investigations of alleged misconducts by ADM," a special committee of ADM independent directors said.

However, the settlement does not cover two ADM executives, Mr Michael Andreas, vice-chairman of the board, and Mr Terrance Wilson, vice-president in charge of the company's corn milling group. ADM acknowledged in a filing with the Securities and Exchange Commission that the two executives might be subject to criminal charges by the Justice Department.

A committee of outside directors negotiated with the government, in part because Mr Michael Andreas is the son of Mr Dwayne Andreas, ADM's chairman.

The impact of the settlement on Mr Mark Whitacre, the former ADM executive who acted as a "mole" for federal investigators and taped company meetings with competitors, is unclear. ADM dismissed Mr Whitacre and brought fraud charges against him.

The settlement comes ahead of the company's annual meeting on Thursday where shareholders are bound to question the costs of the case. In addition to the criminal fines, ADM agreed to pay $95m this year to settle civil suits related to the price-fixing probe.

Two months ago two Japanese competitors in the lysine market, Ajinomoto and Kyowa Hakko Kogyo, and the US subsidiary of Sewon of South Korea, settled price-fixing charges made by the US government and agreed to co-operate in the ADM case.

EU delays reform of exclusive supply agreements

By Emma Tucker in Brussels and Roderick Oram in London

Retailers and distributors of petrol, beer, luxury goods and perfumes will be allowed to continue to exploit a loophole in European Union competition rules because of delays over rewriting policy.

The European Commission – responsible for policing competition abuses in the union – has decided to extend by two years regulations that allow certain "exclusive" agreements, such as those between breweries and pubs, to be spared scrutiny.

The exemptions also apply to petrol suppliers and service stations, retailers of perfume and luxury goods, and other franchising agreements.

Rifts within the Commission over how to formulate a new competition policy mean a wide-ranging discussion paper on its future – already postponed several times – will not be launched until the end of the year.

The "block exemptions" were due to expire at the end of next year, but will now stay in place until 1999.

British brewers welcomed the extension but expressed disappointment that they had to live with two more years of uncertainty.

"We're not thrilled, but better this than the Commission railroading through changes," said a senior executive of one leading brewer.

Continental and British brewers remain confident that the Commission will eventually approve various forms of "tie" they have with some of their customers.

Spanish and Belgian brewers, for example, offer trade loans to bar owners but require them to buy the brewers' beer. In the UK, many brewers and pub companies lease pubs to tenants but require them to buy beer from them.

Last year, the UK Office of Fair Trading concluded that tied tenants usually paid higher wholesale prices than if they had bought beer in the free trade, but the disadvantages were offset by benefits such as lower rents.

Brewers and organisations such as the Campaign for Real Ale argue that the tie has helped support a bigger and better range of pubs than a free market could.

A Commission official said an extension had been granted because "we did not want to create a legal hole".

The block exemptions allow suppliers and distributors to enter into agreements without having to notify Brussels of each one, provided they comply with the terms of the block exemptions.

Japan travel group plans new airline to halve fares

By William Dawkins in Tokyo

Japan's largest discount travel agency, H.I.S., yesterday announced plans to launch the country's first new internal airline in 45 years and to halve fares on the world's busiest scheduled route, between Tokyo and Sapporo on the Japanese island of Hokkaido.

The project, the brainchild of Mr Hideo Sawada, the group's president, comes after a recent change of heart at the transport ministry to favour modest liberalisation in the airline market.

Mr Sawada aims to set up a company next month, as a subsidiary of H.I.S., apply for route licences early next year and start regular domestic flights in two to three years.

The ministry, increasingly sensitive to pleas from leading political parties and regional lobby groups, yesterday welcomed Mr Sawada's plans.

If successful, H.I.S. will compete against the three carriers that dominate what are among the most lucrative air routes in the world. The biggest is All Nippon Airways, with a 50 per cent share of the Japanese market, while Japan Airlines and its affiliate Japan Air Systems hold roughly equal shares of the other half.

The new airline could force a fall in domestic air fares, on average 40 per cent higher than those on more competitive international routes, said Mr Paul Smith, airline analyst at James Capel Pacific.

"It has a reasonable chance of coming off. It will at least put a dent into pricing on the domestic market," he said. The ANA single fare from Tokyo to Sapporo – used by 7.4m people per year – is Y23,400 ($217).

The possibility of a domestic price war comes as Japan's international carriers are struggling to reduce costs in the face of competition from cheaper Asian airlines. JAL's share price fell by Y18 to Y702.

H.I.S. plans to lease three 300-seat aircraft, to be operated by US crews. It is negotiating with ANA to service the fleet.

Finance is to be provided by H.I.S. and by Mr Junichi Ogawara, a private investor planning to leave Japan's largest venture capital group, Japan Associated Finance. Start-up capital will be between Y100m and Y200m with new funding dependent on the result of the licence applications.

The final trigger for Mr Owada's plans came in June, when the transport ministry allowed airlines to set their own domestic fares. The ministry still allocates airport capacity, which will include 40 daily slots to become available next spring when a new runway opens at Haneda airport, outside Tokyo. Ministry officials said new applicants would get priority over existing airlines.

Observer, Page 15

THE LEX COLUMN

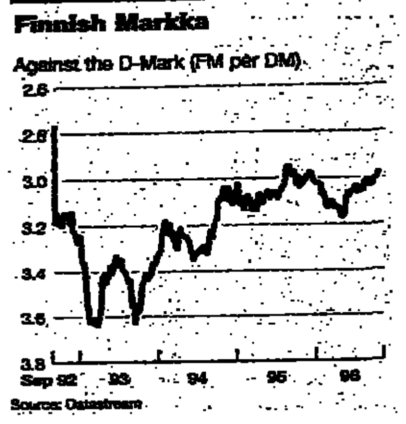
Philips needs a fillip

The market shrugged off Philips' latest profit warning yesterday, cutting the Dutch electronics group's share price by only 4 per cent. The main reason? High hopes invested in Mr Cor Boonstra, who took over as chairman this month. Mr Boonstra, who acquired a reputation as a tough manager when president of Sara Lee, the US consumer products group, seemingly has the right pedigree to knock Philips into shape. Optimists are even hoping that yesterday's profit warning may soften the organisation up for radical action.

Philips could certainly do with a shake-up. Though its operations are more efficient than in the early 1990s, the company is still slow-moving and bureaucratic. Only this year has Philips started to get a grip on its underperforming consumer electronics division. And the group is only now making a big push into mobile telephones, when the industry's previously fat margins are under pressure. Philips also suffers from a bloated headquarters and is carrying loss-makers in its telecoms division.

If Mr Boonstra can solve these operational problems and create a more dynamic organisation, shareholders will have reason to feel content. But a thorough-going strategy of boosting shareholder value would address the fact that the shares trade at a big discount to break-up value. That means, at the least, spinning off the group's majority stake in PolyGram, the music business, and abolishing the special shares that protect it from takeover. Mr Boonstra may grasp such nettles. But, if he does not, the market will be less forgiving the next time Philips disappoints.

FTSE Eurotrack 200:
1812.4 (+1.4)



Source: Datastream

Emu

Both the fact and the manner of Finland's accession to the European exchange rate mechanism will have pleased European monetary union purists. It lends further momentum to the 1999 Emu bandwagon and strikes a blow for orthodoxy at a time when an outbreak of fiscal fudge among aspirant members was threatening to render qualification meaningless. Not only has Finland endorsed the view, favoured by France and Germany, that ERM membership is a necessary precursor to joining monetary union, but it has sweated to get into shape.

With Italy expected to apply for ERM membership within a few months, Finland's example is a useful one. It conforms to the view that Emu membership requires sustained convergence on the criteria laid down in the Maastricht treaty. Italy, by contrast, is a late convert to fiscal rigour. It could qualify for the first round of monetary union only if the "snapshot on a summer day" approach was adopted. The prior issue will be deciding the correct level for Italy to re-enter the ERM. France and Germany, its largest export markets, have an intense interest in the lira being as strong as possible. France is seeking to drive a hard bargain, having suffered at the hands of cheap Italian exports in recent years. But the Italian economy will not be able to absorb simultaneously a much stronger exchange rate and a stiff round of fiscal tightening. A level of L1,000 against the D-Mark would appear about right.

BA/Air Liberté

Precisely what is it that makes British Airways – and apparently Virgin – so enthusiastic to own Air Liberté? The French domestic carrier would be a more extravagant purchase than BA's suggested £3m ($4.7m) price suggests, because it is losing a great deal of money – FFr650m ($128m) in the last nine months. Of course, there should be benefits from joining Air Liberté to TAT, BA's existing (and loss-making) French operation. But this hardly looks enough to make the acquisition worthwhile; there is limited route overlap and BA in any case claims it plans to keep the two businesses separate.

Moreover, even Virgin's Mr Richard Branson might find the French market more than he can chew.

Even a lean new entrant cannot necessarily survive the kind of aggressive pricing the heavily subsidised Air France can afford.

Suppose BA does win; it would have prevented a crude French stitch-up of Air Liberté's future. Yet commercially, the deal would still have an unnerving "double or quits" feel. BA does not need a French domestic airline – it could get French "feeder" passengers through franchising or code-sharing. It has conspicuously failed to make a success of TAT. And Air France continues to operate on an uncommercial basis. The danger is obvious: BA's "solution" could double the size of its problem.

Hanson

Even after adding back the fragmented pieces of Hanson's two recent demergers, its shares are now 30 per cent lower than the day the break-up was announced. This might lead to the obvious conclusion that the restructuring has destroyed shareholder value. And there has been some erosion from higher administration, tax and interest costs. But the reality is that Hanson has introduced transparency to a balance sheet where opacity was more flattering, and announced a dividend cut that was already inevitable. The fall in its shares would have happened eventually, whatever the corporate structure.

With the rump Hanson shares trading below their level of a decade ago, value has finally re-emerged. They offer a prospective yield that is 35 per cent higher than the market, and is undoubtedly sustainable. And they are trading at an 18 per cent discount to a conservative sum-of-the-parts valuation which excludes any possibility of bid premiums. So-called New Hanson, the residual building materials business, could command a price of 50p. That would value it at 11 times prospective earnings for the current financial year, which is lower than RMC, Redland and even Ibstock. And that is after the old earnings-enhancing accounting wizardry has been unwound. At the current share price of 82p, investors would be buying Hanson's soon-to-be-demerged Energy Group on a prospective p/e of 5 and yield of 10 per cent. Hanson may be unfashionable, but this looks ridiculous.

Additional Lex on Premier Farnell, Page 24

Italy warned

Continued from Page 1

being more rigorous than Mr Hans Tietmeyer, president of the Bundesbank, in applying the Maastricht treaty.

One EU monetary official predicted that an extraordinary meeting of EU finance ministers would be convened to fix the parity of the lira.

Both the lira and sterling were ejected from the ERM in September 1992 during a crisis which nearly led to the mechanism's collapse.

Philips warns on profits

Continued from Page 1

audio and video equipment business. A Fl 800m charge to cover the restructuring pushed the group into a quarterly loss for the first time since 1992.

The reorganisation was seen as paving the way for Mr Boonstra, a marketing man known for his tough approach. Unions nonetheless expressed surprise that another upheaval was likely so soon. De Unie, one of the main labour groupings, said it feared another 5,000 jobs would go worldwide.

Philips' latest foray is in digital mobile phones, where it is seeking to gain a top-three position in a sector dominated by Motorola of the US, Sweden's Ericsson and Nokia of Finland. Start-up costs are holding back Philip's performance this year and analysts say the move may be too late.

Its lighting and semiconductor operations are also suffering from pressure on prices.

FT WEATHER GUIDE

Europe today

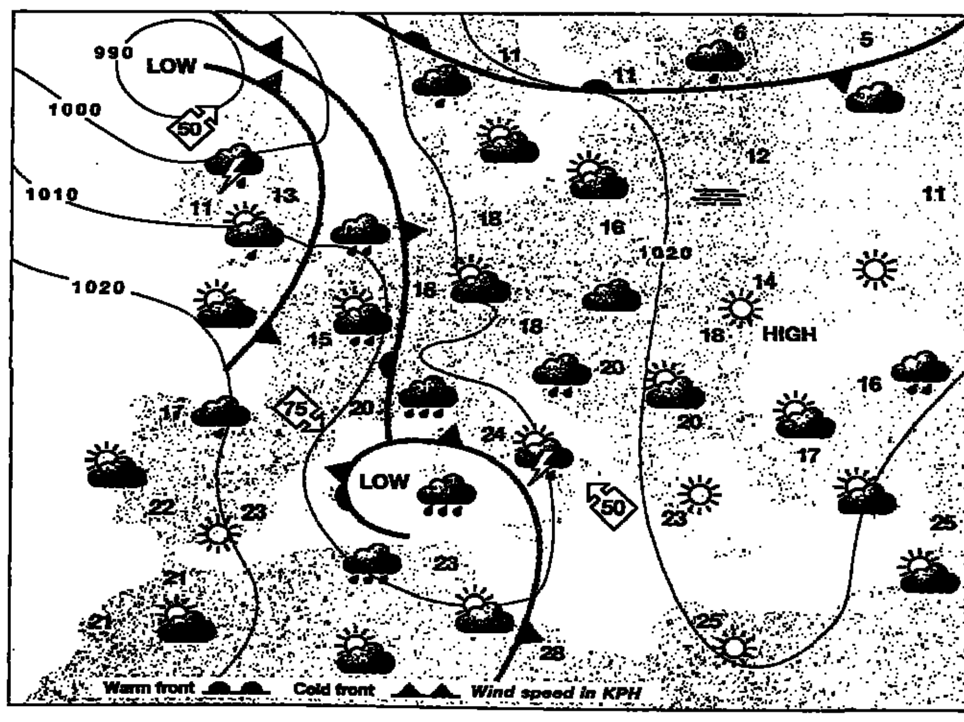
It will remain unsettled over the UK. Heavy showers over Northern Ireland will extend into continental Europe and will also develop in the Benelux and over much of France. Heavy rainfall is expected in south-eastern France and northern Italy.

In Germany and around the Alps, it will remain dry with sunny periods. The Czech Republic and Poland will have more cloud.

It will be calm in southern Portugal, Spain and in south-eastern Europe with plenty of sunshine and temperatures exceeding 20C.

Five-day forecast

It will remain unsettled over large parts of western Europe. More showers will develop in the UK, France and the Benelux. As the week progresses, the showers will spread into Germany and the alpine countries as cooler air covers these regions. Heavy rain will continue in the central parts of the Mediterranean.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius								
Abu Dhabi	sun 35	Beijing	sun 17	Caracas	shower 31	Faro	sun 22	Madrid	fair 17
Accra	fair 31	Belfast	hail 9	Cardiff	shower 12	Frankfurt	fair 18	Majorca	shower 19
Algiers	thund 19	Belgrade	shower 20	Casablanca	fair 21	Geneva	cloudy 16	Malta	fair 25
Amsterdam	rain 15	Berlin	sun 18	Chicago	shower 19	Gibraltar	sun 21	Manchester	shower 12
Athens	sun 23	Bermuda	shower 27	Cologne	shower 18	Glasgow	shower 12	Manila	fair 32
Atlanta	fair 25	Bogota	shower 21	Dakar	fair 32	Hamburg	fair 17	Melbourne	sun 27
B. Aires	fair 24	Bombay	sun 35	Dallas	fair 28	Helsinki	fair 6	Mexico City	fair 22
B.ham	fair 12	Brussels	rain 15	Delhi	sun 31	Hong Kong	rain 28	Miami	fair 29
Bangkok	shower 35	Budapest	cloudy 17	Dubai	sun 35	Honolulu	fair 31	Milan	rain 16
Barcelona	shower 20	C.hagen	fair 14	Dublin	shower 10	Istanbul	fair 18	Montreal	fair 3
		Cairo	sun 27	Dubrovnik	rain 22	Jakarta	fair 31	Moscow	cloudy 6
		Cape Town	fair 22	Edinburgh	shower 12	Jersey	shower 14	Munich	fair 18
						Karachi	sun 36	Nairobi	fair 27
						Kuwait	sun 36	Naples	shower 24
						L. Angeles	sun 24	Nassau	shower 31
						Las Palmas	fair 26	New York	sun 16
						Lima	cloudy 21	Nice	rain 19
						Lisbon	fair 20	Nicosia	fair 28
						London	fair 15	Oslo	rain 10
						Lux.bourg	cloudy 16	Paris	shower 15
						Lyon	shower 17	Perth	fair 20
						Madeira	fair 23	Prague	fair 16

Rangoon	fair 33
Reykjavik	fair 7
Rio	thund 30
Rome	shower 24
S. Frsco	fair 21
Seoul	fair 16
Singapore	shower 32
Stockholm	cloudy 11
Strasbourg	cloudy 17
Sydney	fair 22
Tangier	shower 20
Tel Aviv	fair 25
Tokyo	shower 22
Toronto	fair 12
Vancouver	rain 11
Venice	rain 17
Vienna	fair 18
Warsaw	cloudy 16
Washington	sun 18
Wellington	fair 14
Winnipeg	shower 14
Zurich	fair 17

FINANCIAL TIMES
COMPANIES & MARKETS
Tuesday October 15 1996

IN BRIEF

Générale des Eaux profits jump

Compagnie Générale des Eaux, the French utilities, property and communications group, warned of the need for fresh provisions against its property activities as it reported a more than three-fold increase in net attributable first-half profits from FFr224m to FFr808m ($159.3m). Page 18

Warning hits Deutsche Babcock stock

Shares in Deutsche Babcock, the troubled German plant and engineering group, fell 10.9 per cent to close at DM45.50 after the company warned that its restructuring programme would now cost DM350m ($229m) – considerably more than the DM260m forecast earlier in the year. Page 18

Gengold opens season with 1.8% rise

Gengold, the gold mining arm of South Africa's Gencor group, kicked off the gold groups' quarterly reporting season by announcing net income 1.8 per cent higher at R57.4m ($12.7m) – its fifth consecutive quarterly rise in after-tax profits. Page 20

First Union up 18% at operating level

First Union, the acquisitive US bank based in North Carolina, announced an 18 per cent increase in third-quarter operating profits compared with the equivalent quarter last year. Page 21

Paper price falls hit US producers

US paper manufacturers continued to show the effects of sharply reduced paper prices as Bowater and Boise Cascade announced third-quarter declines. Bowater said net profits had halved from $52.8m to $26.6m, while Boise Cascade reported a loss of $1.68m for the quarter, compared with profits of $118.4m a year earlier. Page 21

Mitsukoshi surge signals retail recovery

Mitsukoshi, Japan's leading department store operator, has reported its first increase in half-year sales and profits for five years. Unconsolidated pre-tax – or recurring - profit rose almost four-fold to Y4.08bn ($36.5m), giving a fresh indication of a patchy but gathering recovery in Japanese consumer confidence. Page 22

Cordiant considers US unit flotation

Cordiant, the UK-based advertising group which includes Saatchi & Saatchi, is considering a partial flotation of its New York corporate identity company. The group said it was "looking at a number of ways of seeing Siegel & Gale going forward", but had no plans for an outright disposal. Page 23

Strong harvest dents Chicago futures

Chicago Board of Trade futures prices slid after sunny weather across much of the US grain belt speeded the US harvest over the weekend. The harvest news underscored a US Department of Agriculture report on Friday which said the US maize and soyabean crops would exceed estimates. Page 28

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

[illegible]		+	2.5	Carrefour	2847	−	47
[illegible]	167¾	+	2.75	Fonc Lyon	525	−	25
[illegible]	187.2	+	4.2	Saint Louis	1281	−	20
[illegible]	226	+	6	**TOKYO (Yen)**			
[illegible]	917	+	6	Rises			
[illegible]				Daiichi Chem	587	+	14
[illegible]	41.4	−	4.5	Dowa Kashi	1530	+	30
[illegible]				Toshiba	755	+	14
[illegible]				Falls			
[illegible]	25¼	+	2	Aoyama Trad	2950	−	130
[illegible]	21¼	+	2¾	Daihatsu	1470	−	40
[illegible]				Yuasa	934	−	19
[illegible]		−	6	**HONG KONG (HK$)**			
[illegible]	23½	−	1½	Rises			
[illegible]	24	−	1¾	Dao Heng	33.5	+	1.4
[illegible]	29¼	−	2¼	Lin Chong Hng	8.3	+	0.35
[illegible]				Peregrine Inv	12.55	+	0.5
[illegible]				Falls			
[illegible]	41⅞	+	5¼	Glorious Sun	3.15	−	0.27
[illegible]	84	+	9	Star Ent	2.1	−	0.15
[illegible]	50	+	12½	Wai Kee Intl	1.06	−	0.09
[illegible]				**BANGKOK (Baht)**			
[illegible]	380	−	9	Rises			
[illegible]	660	−	20½	Thai Iron Wk	88.5	+	6.0
[illegible]				Tong Hua Com	22.5	+	2.0
[illegible]				Utd Flour	48.75	+	4.25
[illegible]				Falls			
[illegible]	795	+	13	Crown Seal	66.5	−	7.0
[illegible]	1404	+	18	Pacific Ins	47.75	−	5.25
[illegible]	2070	−	25	Thai Toray	66.0	−	7.0

Toronto closed. New York prices at 12.30pm.

Chrysler sales exceed expectations

By Richard Waters in New York

Chrysler, the smallest of the big three US automakers, turned in unexpectedly strong sales during the summer, setting it on track this year to equal the record $3.6bn of after-tax earnings it recorded in 1994.

The company's net income jumped 92 per cent from an unusually weak quarter the year before, reflecting further market share gains for its popular line of sport-utility vehicles, pick-up trucks and minivans.

The strong performance virtually assures another big bonus this year for the company's assembly line workers in North America. The average $8,000 payment received in 1994 made Chrysler workers the envy of Detroit, and highlighted the company's productivity advances over Ford and General Motors.

Yesterday's news, and the company's assertions that demand for new vehicles in the US was likely to remain strong at least for the rest of this year, brought a jump in car company share prices in early trading in New York. Chrysler gained $1⅛ to $32⅞, while General Motors rose $1⅝ to $51½ and Ford was up $1 at $33.

Mr Robert Eaton, chairman, said the results – a record for a third quarter – were not "an aberration, nor have we plateaued". He said the company would do even better in future.

Chrysler's figures showed a further jump in its share of US light truck sales. This reached 23.4 per cent, up from 20.7 per cent a year before, as the American love affair with vehicles such as the Jeep Grand Cherokee and Dodge pick-up continued.

As a result, the company's after-tax earnings rose to $680m, or 93 cents a share, in what is normally a slow quarter, bringing its earnings for the first nine months to $2.7bn. Revenues were up 20 per cent, to $14.4bn.

Overall, the company recorded an after-tax profit margin of 4.7 per cent during the quarter, putting the margin at 6 per cent for the year as a whole – still below the 6.7 per cent of its record year.

The continuing strong demand for Chrysler's light trucks comes in spite of a number of recent launches from rivals, who were slower to spot the popularity of such vehicles. Mr Gary Valade, chief financial officer, said that there was no indication that Chrysler would suffer from this new competition, and that the continuing growth in light truck sales overall would leave room for others to enter the market.

In what could be an early sign of growing competition, though, Chrysler reported that the incentives it uses to attract buyers in the US had risen to $685 a vehicle in the third quarter, from $625 in the previous three months. Though still low by recent industry standards, the figure reflects the introduction of a discounted lease plan to promote sales of the Jeep Grand Cherokee.

BA offers jobs pledge in bid for Air Liberté

By Ross Tieman in London

British Airways yesterday pledged to save the jobs of 1,250 staff at Air Liberté after tabling a £3m ($4.7m) takeover bid to administrators of the French carrier.

The UK airline plans to run Air Liberté in tandem with its existing French subsidiary, TAT European Airlines, until profitability has been restored. Goldman Sachs, the merchant bank, has been appointed to advise on how French investors could then be offered a stake in the merged group.

The pledge on jobs is reported to have already won BA the backing of Air Liberté staff. But the London-based carrier will also face competition from Virgin Express, the Brussels-based low-cost carrier owned by Mr Richard Branson. Virgin said: "We have written to the administrator with a proposal concerning the business. We await the response."

AOM, the domestic airline owned by Crédit Lyonnais, said it had not made an offer. It was unclear whether Nouvelles Frontières, the travel group, had confirmed its interest.

Both BA and Virgin are looking to extend their services in continental Europe ahead of the third phase of market liberalisation from April next year.

Buying Air Liberté, France's best-known private sector rival to state-owned Air France, would give valuable take-off and landing slots at Orly airport, Paris. It would also lift BA's share of French domestic traffic to 22 per cent. According to BA, Air Liberté has about 12 per cent of the market, carrying 2.6m passengers in 1995.

However, last month the company fell victim to intensifying competition in the French domestic market. Air Liberté lost FFr650m ($125.7m) during the first nine months of the current year, taking total debts to FFr1.5bn.

Responding to the same pressures, BA recently took full control of TAT and installed Mr Marc Rochet, previously chairman of AOM.

Air Liberté has about 1,300 permanent staff. It operates seven MD83 and four Boeing 737-200 short-haul aircraft and four long-haul DC10s.

Lex, Page 16

Interim results at Premier disappoint

By Jane Martinson in London

Premier Farnell, the world's third-largest electronic component distributor, yesterday disappointed investors as it published interim results in line with expectations but gave what many regarded as scant details of merger benefits.

In London, shares in the company fell 20½p to 660p.

Mr Howard Poulson, chief executive, said the integration of Premier Industrial Corporation of the US into Farnell Electronics was on track.

However, a perceived lack of detail about the progress of the merger and the impact of a slower electronic components market caused concern in the market.

Premier Farnell faces pressure to appoint a heavyweight new chairman, partly to ease fears that the Wetherby-based Farnell management can cope with the takeover of a company twice its size.

Mr Poulson said yesterday that the shortlist for the job was down to two outsiders with worldwide industrial experience. He hoped to make an announcement within the coming month.

He said the group had no immediate plans to sell the "very profitable" but non-core product manufacturing businesses. At the time of the merger the group had indicated that such disposals could raise up to $150m.

Mr Poulson said he hoped the group's split into five divisions would answer criticism of management focus.

The downturn in the components and semiconductors markets had hit prices rather than volumes, he said.

He said the acquisition, which had increased the group's presence in the higher margin catalogue business, had helped it weather this downturn.

The group is still considering the future of its low-margin volume distribution division, where it still has to appoint a chief executive.

Premier's 3½-month contribution helped lift pre-tax profits to £56.1m, after a £7.7m exceptional reorganisation charge, in the six months to July 28.

Last year's profit of £71.3m was lifted by a £35.3m profit on a disposal. The profits were roughly in line with pre-exceptional expectations.

About 150 jobs were cut in the six months. No further redundancies or charges are expected.

Sales and operating profits on continuing operations rose almost 10 per cent to £277.3m and £36m respectively. Premier contributed post-charge profits of £26.2m on sales of £165m.

Earnings per share fell 6 per cent to 16p as a result of the acquisition costs. Mr Poulson said he expected earnings to be diluted for the next two years. An interim dividend of 5.2p was declared, up 19 per cent after adjustment.

The results failed to narrow the gap between analysts on the group's long-term prospects. Mr James Heal at Hoare Govett maintained his critical stance, and described the results as "not very inspiring".

However, Ms Sue Cox at UBS was confident about the long-term prospects of the group and blamed profit-taking for yesterday's market reaction. She cut £2m from her full-year profit forecast of £149.4m because of currency changes.

Lex, Page 24

Australian banks agree merger

St George chairman Frank Conroy (left) unveils the deal he said offered 'critical balance sheet size' with Jim Service (second left), Advance chairman; Jim Sweeny (third left), St George managing director; and John Thame, Advance managing director Picture: Reuters

By Nikki Tait in Sydney

St George, the New South Wales-based regional bank yesterday launched an agreed A$2.65bn (US$2.1bn) bid for Advance Bank, its Sydney-based rival.

If successful, the bid would create Australia's fifth-largest commercial bank with assets of about A$40bn.

The proposed deal is the latest in a wave of regional bank mergers and takeovers in Australia, driven by the banks' need to cut costs as institutions such as insurance companies and financial services groups enter their traditional lending territory.

Advance Bank, which is similar in size to St George, said it supported the deal and viewed the price as "full". St George is offering A$7.30 for each Advance share – A$2.10 in cash, A$0.20 via a special cash dividend and the remainder in St George shares.

Mr Frank Conroy, St George chairman, said: "Strategically, the proposed merger achieves critical balance sheet size and offers a number of cost reduction and revenue-enhancing opportunities. In addition, our customers will benefit from access to a broader distribution network and a wider range of products."

The banks acknowledged that up to 1,000 jobs – out of a combined 7,900 – could be shed as a result of post-merger rationalisation. Between them, they have more than 600 branches, of which 167 overlap.

Mr Jim Sweeney, St George managing director, said about 15 per cent of the annual combined expenses of the two banks – or around A$140m before tax – could be saved. "St George anticipates that the transactions will increase its earnings per share before deducting goodwill and amortisation," he said.

The Advance deal is St George's third attempt to join forces with another bank. It tried to buy the former state-owned BankSA but lost out to Advance, which acquired it for A$730m in mid-1995. A subsequent bid for Challenge Bank was trumped by the larger Westpac, while an attempt to merge with Queensland's Metway Bank was thwarted by the Queensland state government with a rival plan for a regional financial services group based around Metway.

The Australian Competition and Consumer Commission, the competition watchdog, said it would review yesterday's deal. But previous rulings have indicated that it wants at least one regional bank, as well as the four national banks, in each state. As St George and Advance are based in New South Wales, this condition would appear to be met.

Meanwhile, National Australia Bank, the country's largest bank and holder of 6.8 per cent stake in St George, said it had no immediate comment. There had long been speculation that NAB might bid for St George. Mr Sweeney believed any attempt by a big bank to block the merger by taking over one of the participants would fail due to ACCC objections.

Advance Bank shares surged 57 cents – or 9 per cent – to A$6.85 on news of the deal. However, St George, which plans a new A$360m capital raising to help fund it, lost 40 cents to A$8.55. The terms of the capital raising will be fixed once the deal is completed.

Traub shares suspended amid creditor talks

By Michael Lindemann in Bonn and Peter Marsh in London

The future of Traub, one of Germany's leading machine tool makers, was in doubt last night after its shares were suspended on the request of Deutsche Bank, one of its biggest creditors.

The company and creditor banks – to which Traub owes about DM300m ($196m) – were in meetings last night and said they would make a statement about Traub's future today.

Deutsche Bank said it had asked for the shares to be suspended at Traub's request, something it often does for smaller companies which do not deal directly with the stock exchange.

The bank declined to say how much money it was owed by Traub but, as Germany's biggest bank, it is believed to have extended substantial loans. Traub's difficulties are the latest in a string of crises at industrial companies in which Deutsche Bank either holds stakes or is a leading creditor. These include Klöckner-Humboldt-Deutz, Metallgesellschaft and Procedo.

Last night, it appeared Traub might be preparing for a restructuring. It said it was confident of surviving. The company said speculation about an imminent bankruptcy was unfair and off the mark. Traub said it was optimistic it had a future.

Discussion about restructuring has been rife in recent weeks after the company admitted it had substantial liquidity problems and was in talks with potential buyers or long-term partners. Traub has talked to about 10 potential suitors, including the 600 Group, the UK's biggest machine tool company. However, the talks with the UK company were exploratory and not expected to lead to any bid for the company.

Traub, based near Stuttgart, is Germany's fourth-biggest machine tool maker and has lost money for five years in a row. Last year it had sales of DM521m. It made a first-half loss of DM16.4m.

The company's problems are symptomatic of the poor financial health of many machine tool companies in Germany – home of Europe's biggest machine tool industry, which has been hard hit by increasing international competition, weak demand and high local labour costs.

In the past year, the company's shares have fallen sharply, from DM215 in August last year to DM33 at yesterday's suspension.

Yesterday, one bank analyst in Frankfurt, who declined to be named, said: "Whatever happens to Traub after today's announcement, the company has got some hard years ahead. It is not an attractive investment, either long-term or short-term."

The company raised a small amount of money last week when it sold a 25 per cent stake in Hermle, a small machine tool maker, back to its management. However, Mr Gerhard Protze, Traub chief executive, said the proceeds were small and insufficient to solve the liquidity problems.

Warning hits Deutsche Babcock stock

By Michael Lindemann in Bonn

Shares in Deutsche Babcock, the troubled German plant and engineering group, yesterday fell 10.9 per cent to close at DM46.50 after the company warned that its restructuring would cost DM350m ($229m) – considerably more than the DM260m forecast earlier this year.

The Oberhausen-based group, which began the year with a share price of DM142.50, blamed difficulties in the pipemaking division as well as higher than expected restructuring costs at Magdeburger Armaturenwerke, the east German subsidiary. This has long been one of the group biggest loss-makers.

It also said that Deutsche Babcock Technologies, its US subsidiary, was losing money in some activities.

However, the company said the higher costs would not aggravate the liquidity problems it experienced earlier this year and it would not be asking creditors for further funds.

Deutsche Babcock received loans worth DM600m from a group of banks and insurance companies in July after forecasting operating losses of DM300m for the financial year to September 30.

The company said that the restructuring costs were higher than expected because some activities would have to be "more radically cleaned up" than previously supposed.

While profits were expected to take a further buffeting, the company said most of the extra costs came from more aggressive depreciation, which would have only a limited effect on liquidity.

The company planned to complete the restructuring by the end of 1997 but had taken most of the charges on its 1996 accounts. "In some cases we have even made provisions for risks on some orders which may never occur," it said.

Deutsche Babcock is seen as one of Germany's most unwieldy engineering groups, active in many areas of heavy engineering for which analysts see few prospects in Germany.

Mr Heyo Schmiedeknecht, chief executive, made several attempts to drag the company back into lasting profitability in the early 1990s, but was forced in February to announce his most sweeping restructuring to date, including the disposal of businesses with sales of DM1.6bn.

Générale des Eaux cautions as profits leap

By David Owen in Paris

Compagnie Générale des Eaux yesterday warned of the need for fresh provisions against its property activities as it reported net attributable first-half profits up from FFr224m to FFr808m ($156m).

The French utilities, property and communications group also unveiled a reorganisation of its extensive building and public works activities, announced it was looking for partners for its Générale de Santé unit, which specialises in private hospital care, and announced plans to give its fast-growing transport arm more autonomy.

Mr Jean-Marie Messier, the group's recently elevated chairman, described 1996 as "a year of transition" and predicted that 1997 would show a marked improvement, with profits "significantly better" than the group's previous best of FFr3.44bn achieved in 1994.

He said the group was also aiming next year for a reduction in its debt load of between FFr10bn and FFr15bn. By the end of 1996, net debt would have stabilised at FFr52.5bn, against FFr53.8bn on December 31, 1995.

Net profits for the whole of this year would weigh in at about FFr1.8bn, against losses of FFr3.7bn in 1995. They would be "strongly influenced" by exceptional items, with operating profits more than double 1995 levels at about FFr3.7bn.

In the six months just ended, operating profit amounted to FFr1.4bn and the group recorded FFr1.7bn of exceptional gains. Within this figure, FFr3.37bn of capital gains and other exceptional benefits were offset by FFr200m in restructuring charges, FFr1bn of exceptional losses and provisions (mainly from the group's property and telecoms activities) and FFr460m in amortisations.

Mr Messier indicated that new exceptional charges against the group's property activities could amount to "a little more than FFr3bn". The company had assumed a "pessimistic scenario" between now and 2000.

Turnover was down marginally at FFr79.2bn.

Mr Messier, who aims to make Générale des Eaux the main competitor to France Télécom once the French telecoms market is liberalised in 1998, said the group's communications turnover could rise 65 per cent to FF7bn in 1996 and to nearly FFr40bn by 2003. The company last month unveiled a strategic alliance with British Telecommunications.

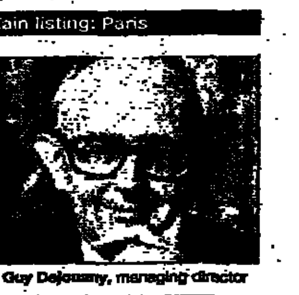
PROFILE

Générale des Eaux

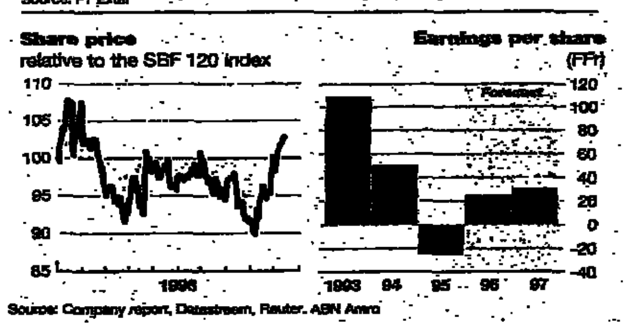
Market value: $13.89bn | Main listing: Paris

P/E	21.4*
Gross yield	3.2%
Earnings per share	FFr-24.72
Current share price	FFr585

Source: FT Extel



Guy Dejouany, managing director



Source: Company report, Datastream, Reuter, ABN Amro

KirchGroup appoints new board members

By Frederick Stüdemann in Munich

KirchGroup, the German media company, yesterday announced the appointment of two new board members in a move brought about by recent expansion in business activities and as part of a longer term restructuring strategy for the privately held company.

Mr Dieter Hahn, currently head of Deutsches Sport Fernsehen, a Kirch subsidiary, will join the main board where he will be responsible for the sports programming rights and public relations. Mr Klaus Piette, head of Pro Sieben, the television channel in which Mr Leo Kirch's son Thomas holds a stake, will take responsibility for personnel and legal affairs. Both will start their new jobs on November 1.

"The appointments are a reflection of the growth in the group's activities. In the last year and a half we have added three new business areas: sports, digital television and programme production," said Mr Gottfried Zmeck, managing director of Kirch. Mr Zmeck's own role as board member responsible for the group's digital television activities, was also confirmed yesterday.

Mr Zmeck confirmed reports in the German media that Kirch was thinking about a longer term reorganisation of the group's ownership structure. But he said reports that Mr Kirch planned to transfer ownership of the company to a foundation with operational control resting with a holding company, which might be publicly quoted, was "speculation".

The news that a restructuring was being considered is an indication that the reclusive Mr Kirch, who will be 70 next week, is making plans for the time when he is no longer in operational control of his company.

The idea of establishing a foundation is not a new one in the German media industry. Ironically, it was the preferred choice of restructuring for Mr Reinhard Mohn, the former sole proprietor of the Bertelsmann media group, which is Kirch's main rival.

Crédit National to change statutes

By Andrew Jack in Paris

Crédit National, the French banking group, is on the verge of changing its legal statutes to save costs and bring it more into line with the country's other mainstream commercial banks.

The bank, which is merging with Banque Française du Commerce Extérieur, is formally to notify its unions at the end of this month that it intends to drop its status as a "specialist financial institution".

It plans instead to become a member of the Association of French Banks, the body which represents groups including Société Générale, Crédit Lyonnais and Banque Nationale de Paris, and therefore bring its employment policies more in line with its competitors.

The change is part of the group's strategy to make significant cost savings by abandoning a series of special privileges and payments granted to staff in the past.

The Association of French Banks has a more basic set of working conditions negotiated over the years, although many of its individual members have provided supplementary benefits to staff.

Executives refused yesterday to discuss the size of the savings involved, but they are believed to run to several percentage points of the existing wages bill, which was FFr885m ($171m) for the first half of the year.

Both Crédit National and BFCE were previously classified as specialist financial institutions, giving the state some additional powers in respect of the groups in exchange for their role in running state programmes.

Crédit National has already shed one of these extra powers: the right of the state to appoint the chairman of the group.

The shift in status is expected to take until January 1998 to complete, after allowing for legal scrutiny of the modification.

EUROPEAN NEWS DIGEST

Mediobanca hit by Ferfin charge

The move by Mediobanca, the Milan merchant bank, to acquire a 15.2 per cent controlling stake last year in Ferruzzi Finanziaria (Ferfin), the holding company of the collapsed Ferruzzi family business empire, led to an eventual outlay of L579bn ($380m). Of this, Mediobanca was then obliged to write down L230bn in its accounts for the year ending June 30 1996.

The cost of Mediobanca's acquisition emerged yesterday as its full balance sheet was circulated in advance of its October 28 shareholders' meeting. The raid last October on Ferfin, which controlled the Montedison industrial group, followed Mediobanca's abortive efforts to form Super-Gemina – a holding intended to merge Montedison with the Gemina investment group and some of Fiat's bio-engineering companies. Having built up an initial stake of 10.7 per cent for L250bn, Mediobanca was obliged by Consob, the stock market watchdog, to make a public bid costing L242bn. The remainder of the outlay was in additional warrants for Ferfin, which has since changed its name to Compart. *Robert Graham, Rome*

Synthélabo sees full-year rise

Synthélabo, the French drugs group, said it expected a rise in full-year net income and a 10 per cent increase in sales. For the first nine months it posted sales up 10.4 per cent to FFr7.58bn ($1.46bn). In the first half, profit before taxes, minorities and asset losses rose 20 per cent from FFr591.8m to FFr710.3m. Six-month sales increased 10.2 per cent from FFr4.64bn to FFr5.12bn. *Reuter, Paris*

No demerger at Rhône-Poulenc

Mr Jean-René Fourtou, chairman and chief executive of Rhône-Poulenc, the French chemicals group, told La Tribune Desfossés newspaper that the board had decided against a demerger. It would concentrate the company more on pharmaceuticals.

The company would continue its FFr10bn ($1.92bn) asset sale programme, of which more than half would be realised this year. Mr Fourtou said Rhône-Poulenc should have earnings per share growth – before exceptionals – of 20 per cent in 1996, 1997 and 1998 and should cut its net debt to equity ratio from 72 per cent to below 50 per cent. He also said a takeover of Sanofi, the drugs unit of Elf Aquitaine, the French oil group, made no sense.

Mr Fourtou said that while a demerger had been studied, the group's portfolio of activities was less dispersed than that of Imperial Chemical Industries, the UK group, before its demerger. *Reuter, Paris*

ETVA seeks buyer for port

ETVA, the struggling state-owned Greek development bank, is looking for private investors to take over extensive port facilities near Astakos in western Greece, which cost Dr15bn ($62m) to build but have never been used. The port at Platyiali is available for development as a "free zone" which could become a container terminal and transhipment centre for goods traded between the EU, southern Europe and the Middle East. The bank has appointed Eurofin, the Greek financial consultants, to advise on privatising Platyiali. *Kerin Hope, Athens*

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COMPANIES AND FINANCE: INT'L

Gengold posts fifth successive rise in profit

By Mark Ashurst in Johannesburg

Gengold, the gold mining arm of South Africa's Gencor group, yesterday opened the quarterly reporting season for gold groups by announcing its fifth consecutive quarterly rise in after-tax profits.

The group, which is seeking shareholder approval to separate into two autonomous mining companies, reported third-quarter net income of R57.4m ($12.6m), a 1.8 per cent increase over the previous three months.

Increased gold output and a buoyant gold price, helped by the weaker rand, compensated for increases in the wage bill and a higher tax charge. Analysts said the results were in line with expectations.

The average gold price received increased 2.8 per cent in the quarter to R54,400/kg, which compares with a 10 per cent rise in the previous quarter. Operating income rose 3.5 per cent, compared with 16 per cent in the previous period.

Mr Tom Dale, managing director, said the results did *not reflect progress made in* the group's restructuring. New training schemes, designed to improve working practices, had raised productivity, he told analysts. The financial benefits would come through next year.

Working costs at flagship mines Beatrix and Kinross increased 10 per cent, which managers said was due largely to a 9 per cent rise in wages. Analysts described the increase as "the price of industrial peace", which was critical to the group's restructuring programme.

Kinross, which returned to profitability in the March 1996 quarter, incurred a tax charge of R4.2m, compared with R113,000 in the June quarter. Net income almost halved from R21.9m to R10.9m and the mine failed to achieve its production target of 1,000kg a month, in spite of sustained capital investment. "We are not going to persevere for ever. If we don't get production to that level, we are going to downscale permanently," Mr Dale said.

Beatrix reported a 9 per cent rise in net income from R34.4m last time to R37.4m. The mine lost about R4m from the bottom line as a result of the hedging programme, which would not be extended. The hedged price was R49,370/kg, compared with an actual price of R54,920. The group had achieved a combined price of R53,364/kg.

EUROPEAN NEWS DIGEST

Winterthur set for China licence

Winterthur Insurance, the Swiss insurer, appears to have won the race to become the first European company to be allowed to sell insurance in China. It announced yesterday it had been invited by the People's Bank of China, which is responsible for vetting licence applications, to apply for a licence. Winterthur indicated the competent Chinese authorities had taken the decision in principle to allow it to open a local business.

Several leading European insurers, including Zurich Insurance, Winterthur's bigger Swiss rival, are known to be interested in operating in China. More than 80 foreign insurance companies are waiting for licences. AIA, a subsidiary of AIG, the US insurer, and Tokio Fire and Marine, are the only two foreign insurers operating in China. *William Hall, Zurich*

Dresdner hints at 'direct' plan

Mr Jürgen Sarrazin, chairman of Dresdner Bank, has hinted strongly that Dresdner would soon open its own direct bank, following other big German banks. In an interview with CNBC Europe television, he said the move would take place "in the foreseeable future".

He also repeated his expectation that operating profits this year would grow at least 10 per cent, despite slowing in the third quarter. Profits would show a "marked increase" with double-digit growth at the end of the year. Operating profits were 44 per cent higher in the first half at DM1.42bn ($928m); last year, they rose 22 per cent to DM1.99bn. *Andrew Fisher, Frankfurt*

Gold Fields slides in quarter

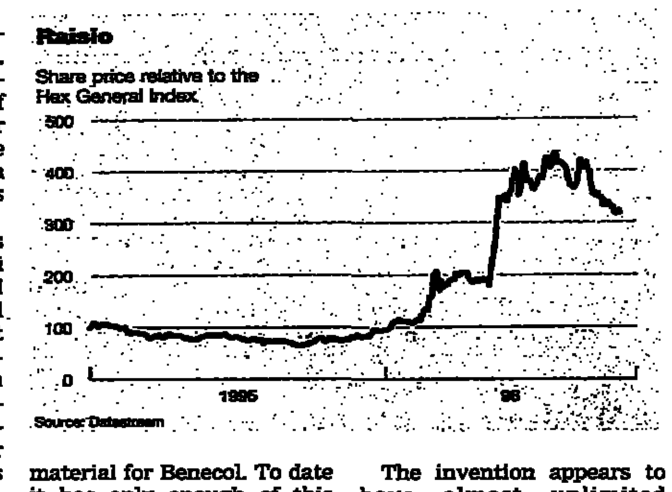
Gold Fields, the South African mining group most troubled by industrial unrest, announced a 25 per cent fall in pre-tax profits to R315m ($69m) for the quarter to September. A one-month stoppage caused gold production to fall from 23,021kg to 21,172kg. A higher average gold price, and a 37 per cent fall in the tax bill to R41m, failed to offset the decrease. Mr Alan Munro, executive director, said relations between Gold Fields and the National Union of Mineworkers were improving, although they had failed to negotiate a productivity-linked wage offer. *Mark Ashurst, Johannesburg*

Raisio set to spread its wings

Raw material shortage may hit production of magic margarine

This is set to be a testing week for Raisio, the Finnish phenomenon which has been one of the world's most spectacular stocks this year due to the company's invention of a miracle margarine that cuts cholesterol intake.

In meetings with analysts and journalists in Helsinki and London today and tomorrow Raisio says it will reveal some details of how it plans to transform the margarine, called Benecol, from a promising but small volume product into the worldwide, health-fad blockbuster that many foreign investors believe it can become.



As the company will simultaneously announce interim results which are expected to show weakening performance by its traditional foods, animal feed and chemicals businesses, Raisio will be hard pressed to sustain the extraordinary expectations which have so rapidly built up around it.

Already, some of the air has leaked out of the Raisio bubble. Its listed shares rocketed from less than FM62 at the turn of the year to a high of FM339.90 in early September. This took the market capitalisation of the company, which has annual turnover of just over FM3bn ($655m), to approaching FM5bn. Foreign ownership has jumped from virtually nothing to more than 40 per cent of the capital.

But in the past month, the shares have slipped to the FM260 level.

Investors seem to have realised the enormous task facing Raisio, a farmer-controlled company with limited experience outside Finland, in making the leap from ingenious invention to international success. In particular, Raisio must answer one crucial question: how to secure more supplies of stanol ester, the vital raw material for Benecol. To date it has only enough of this ingredient, which limits the cholesterol absorbed by the body, to supply a fraction of the relatively small Finnish market.

"They might get the raw material they need," says Mr Ben Wärn, an analyst at Eskilda Securities in London who has followed Raisio for years. "The question is how many years it will take. My feeling is the share price has gone way beyond all fundamental valuations."

No-one doubts Benecol is an exciting product. Trials have shown that eating as little Benecol a day as the amount spread on two slices of bread reduces the risk of heart attack by up to one third. In Finland – the only place Benecol is available to date – the magic margarine fetches six times the price of regular spreads.

Stanol ester is derived from plant sterols which have long been known to have cholesterol inhibiting qualities. Raisio's breakthrough – by its chemist Mr Ingmar Wester – was to make the stanol ester. It is soluble in fat and thus can be introduced into fatty food products without upsetting other qualities of the foods.

The invention appears to have almost unlimited potential, especially in health-conscious markets like the US. But there is one big snag. Although sterols are produced readily as a side-product in mass processing of vegetable matter, almost nobody has the systems for collecting them.

According to Enskilda, Raisio has access to 30,000kg of plant sterol a year, the output from a 250,000-tonne capacity pulp mill in eastern Finland, enough to make only 350,000kg of Benecol. Raisio's total margarine output is 60m kg, including exports. To produce 20m kg of Benecol, equivalent to ⅓ of the total Finnish market, Raisio would need to increase its raw material supply by some 60 times.

An even greater leap in access to sterols is needed for much bigger world markets. Speculation by some analysts earlier this year that Benecol could be generating profits of FM1.2bn in the year 2000, based on a 3-5 per cent share of the developed world's margarine market, seems wildly optimistic.

Mr Jukka Kaitaranta, the Raisio executive in charge of Benecol's development, says Raisio is "working globally on raw material sourcing". He says feasibility studies are under way with several different companies on establishing volume sterol extraction. But he acknowledges that getting Benecol – or other products containing stanol ester – to international markets has to be done carefully.

"We cannot just jump there," he says. "We have to be sure that when we enter a market we can meet the consumer demand. We can't afford a situation (of short supply) as we have had in Finland in any other market. At the moment the raw material bottleneck is our major concern."

There are other hurdles Raisio must overcome. Although approved by the health authorities in Finland, the company will have to win approval for Benecol – or any other product from stanol ester – from other national authorities.

Then there is the issue of distribution and marketing. Raisio may seek partnerships with big international food groups or spin off Benecol from the rest of Raisio's businesses. But changes in the structure of the group – and any change in ownership – would be complicated because Raisio is controlled by hundreds of farmers who hold the voting K shares. Only Finnish farmers can hold K shares – and no party can exercise more than one eighteenth of the votes at a shareholders' meeting.

Mr Tor Bergman, one of Raisio's top management team, says there is no immediate intention to restructure the group.

But he is anxious to distance the company from the more fevered expectations of investors. "The company itself has not created these expectations," he says.

Hugh Carnegy

COMPANIES AND FINANCE: THE AMERICAS

First Union up 18% at operating level

By John Authers in New York

First Union, the acquisitive North Carolina-based bank, yesterday announced an 18 per cent increase in third-quarter operating profits compared with the equivalent quarter last year.

Like most of the US banks that have reported to date, its net earnings per share were down against those for the third quarter of 1995, because of a one-off charge of $133m towards the bail-out of the savings & loan industry. The charge reduced net profits after tax to $357m, compared with $381m a year earlier.

Increases in fee-based income from capital markets operations and fund management underpinned the growth in operating earnings, rising by 28 per cent, while net interest income from the bank's traditional lending activities rose only 6 per cent.

Total funds under management for the bank's Evergreen mutual funds had almost tripled to $16bn over the year. This is expected to rise to $27bn after the fourth-quarter acquisition of Keystone, an independent Boston-based fund manager.

On capital markets, where First Union has deliberately concentrated on medium-sized companies to avoid competing with the large New York investment banks, fee income increased 52 per cent from the third quarter of last year.

Overall net loan growth for the quarter was 7 per cent compared with the same quarter of 1995. Average net loans were $90.5bn, up from $86bn. The high level of consumer bankruptcies led to losses of $84m on bad credit card debts, which made up the majority of overall charges for bad debt of $144m.

Norwest, a regional bank based in Minnesota, also reported increased profits, with earnings per share up 14.5 per cent on the same period last year before the charge for the savings & loan bail-out was taken into account, rising from 69 cents to 79 cents.

It took a lower charge for the bail-out than most banks, equivalent to 3 cents per share, making net earnings of 76 cents per share.

This showed that Norwest's bottom line revenue growth was still superior to the rest of the industry, according to Mr Michael Mayo, banking analyst with Lehman Brothers.

He suggested that the most important trend was the bank's concentration on building revenue through improving efficiency – a theme which could be echoed today with the announcement of results from NationsBank, another highly acquisitive North Carolina-based bank.

Earnings slide at Bowater, Boise Cascade

By John Authers

US paper manufacturers continued to bear the brunt of sharply lower paper prices yesterday, as two more companies announced profit falls in the third quarter. However, they continued to make optimistic predictions for demand.

Bowater, based in South Carolina, announced net profits halved since the equivalent quarter last year, from $92.8m to $26.8m.

It said that pulp prices had improved throughout the quarter but that earnings had been hurt by the erosion of paper prices.

Sales for the year to date are down on the same nine months last year, from $1.45bn to $1.36bn.

Bowater expected healthier market conditions in 1997, and pointed to the fact that it had sold extra amounts of newsprint and coated groundwood paper in the third quarter, although at lower prices than in the second quarter.

Boise Cascade, based in Idaho, continued the gloomy trend, announcing a loss of $1.65m for the quarter, compared with profits of $118.4m for the same quarter last year, when the company was aided by a gain of $6.2m from the issuing of common shares by the Boise Cascade Office Products company.

It said it expected its paper business to remain "sluggish" until market conditions improved further.

Seasonal effects would weaken profits at its building products division in the fourth quarter, but it forecast strong profits from its office products business.

The company last week announced the sale of its coated publication paper business to Mead, which is based in Indiana, as part of a restructuring.

This will be completed during the next quarter at a price of about $650m for a "modest" gain.

Mr Mark Wilde, a paper industry analyst with BT Securities, said: "We are trying to get a sense of whether we are at an inflection point for the market." Analysts believe the market has stabilised, but are uncertain whether this signals a lasting recovery or a "dead cat bounce".

The sector had been damaged by increasing capacity from Indonesia, where producers were aggressively competing on price, Mr Wilde said. The markets for newsprint (which was traditionally volatile and sensitive to the overall strength of the economy) and higher quality coated paper (where shipments had fallen heavily) were the hardest to predict.

Shares in both Boise Cascade and Bowater remained broadly unchanged in morning trading in New York.

Tax charge behind decline at Hughes

By Christopher Parkes in Los Angeles

Hughes Electronics yesterday blamed higher taxes for a slight dip in third-quarter earnings, and reported increased revenues in all three operating divisions.

Despite the slip in earnings per share from 64 cents to 63 cents, the General Motors subsidiary exceeded most analysts' forecasts, and, as one said, the 11 per cent rise in sales to $3.8bn showed Hughes was still on the growth track.

The company said most of the revenue increase came from higher sales of communications satellites and rising numbers of subscribers to its DirecTV satellite television broadcasting unit.

However, a dip in operating profits from these businesses reflected high marketing costs for the television arm which has been embroiled in a price-cutting war for the past six months. Prices of hardware for direct-to-home television reception have fallen more than 50 per cent since the marketing offensives started.

Service subscription rates for the 150-200 channels available from satellites have also fallen sharply.

Operating profits from telecommunications and space operations dropped 5.8 per cent to $62m in the quarter, while aerospace and defence dropped 6.5 per cent to $167m. Automotive electronics showed a 10 per cent rise to $166m.

Earnings per share of $2.18 for the nine months of the current year, compared with $2.03 last time, have been increased mainly by the one-off deal earlier this year in which AT&T, the telephone carrier, bought a 2.5 per cent stake in DirecTV.

Hughes has been strongly rated among analysts because of its powerful position in both satellite manufacture and the growing satellite broadcasting market.

The group recently raised itself to a new tier in the space communications hierarchy with a deal to acquire satellite operator PanAmSat and spin it off in a separate publicly-quoted company after merging its global network with Hughes's satellite network, which is operated mainly in the US.

Californian utilities agree merger deal

By Christopher Parkes

Two leading southern California energy utilities have agreed to merge in a share exchange that will create a gas and electricity group with a market valuation of $5.2bn, 6m customers, and more than $4bn in annual sales.

The partners are Pacific Enterprises, which owns Southern California Gas Company, and Enova, parent of San Diego Gas & Electric. They hope to gain the necessary critical mass to compete effectively with bigger rivals after the impending deregulation of the Californian power industry.

Southern California Edison and Pacific Gas and Electric control more than 80 per cent of the state's electricity market. They have already promised industrial and household consumers sharp price cuts after the state market is formally deregulated in January 1998.

California is the first state to pass the necessary market liberalisation legislation called for by a federal deregulation act passed in 1992.

The companies claimed the move would generate cost savings of $1.2bn over the next 10 years.

Both companies' boards have agreed, and are now seeking regulatory approval in order to complete the merger by the end of next year.

Executives said that the merger would allow the new company, which will be based in San Diego, close to the Mexican border, to compete more effectively with larger, established energy utilities.

SGSC, based in Los Angeles, claims to be the largest distributor of natural gas in the US, its supply lines cover 23,000 square miles with a population of 17m.

SDG&E provides electricity to 1.2m customers and gas to 700,000 homes in the far south of the state, and although it has two power stations of its own, it depends on outside suppliers for 62 per cent of its electricity.

However, it is also considered well placed to import cheaper power from generating capacity based in Mexico.

Under the terms of the merger, Pacific Enterprises will receive 1.5 shares of the new company's stock for each existing share and Enova stockholders will receive 1 share.

Rite Aid expands with $1.34bn deal

By Richard Tomkins in New York

Rite Aid, the US drug store chain, yesterday announced plans to consolidate its number one position by buying Thrifty PayLess, the biggest drug store chain in the western US, in an all-paper deal worth $1.34bn.

The merger will create a chain of more than 3,500 drug stores with annual revenues of about $10bn. Rite Aid said combining the two companies would enable them to save at least $65m in the first full year through better purchasing and the elimination of common overheads.

"This will result in more competitive pharmacy pricing to the consumer," Mr Martin Grass, chairman and chief executive of Rite Aid, said.

Rite Aid is paying 0.65 of a Rite Aid share for each Thrifty PayLess share, resulting in the issue of about 38.7m new Rite Aid shares. This will leave Thrifty PayLess shareholders with a 31.2 per cent stake in the combined entity.

Rite Aid said the acquisition would increase earnings per share next year, but its share price fell $1⅝ to $34⅛ in early trading. Thrifty PayLess shares jumped $3¾ to $21⅝.

Thrifty PayLess was formed in 1994 when Leonard Green & Partners, the Los Angeles based buy-out firm that had acquired the Thrifty chain two years earlier, bought the PayLess chain from Kmart.

It was floated in April this year at $14 a share, but Leonard Green & Partners and Kmart still own about 43 per cent of the stock. They have agreed to vote in favour of the merger, making a rival bid unlikely.

After a $117.8m recapitalisation charge, Thrifty PayLess made net losses of $93.7m, or $3.23 a share, in the nine months to June; but analysts saw earnings per share of $1.04 in the year to next September.

For Rite Aid, the acquisition of Thrifty PayLess follows a setback this year when it was forced to drop a proposed $1.8bn acquisition of Revco, another big drug store chain, because of opposition from the Federal Trade Commission.

The FTC was concerned the acquisition would cut competition as the two were in similar geographical areas. But there is little overlap between Rite Aid and Thrifty PayLess, so they are not expecting the FTC to oppose the deal.

Serfin pulls out all the stops on debt collection

The Mexican bank is redoubling its efforts to deal with risk assessment and problem loans

After the euphoria of privatisation, the dizzy expansion of credit in the early 1990s, and the shock of Mexico's banking crash last year, it is perhaps not surprising that Serfin, Mexico's third-largest bank, is rediscovering the virtues of old-fashioned banking as it pulls back from the brink of insolvency.

Mr Adolfo Lagos, a former senior executive at Bancomer, Mexico's second-largest bank, accepted the challenge of salvaging Serfin in March. Among the new managers he brought to improve the bank's asset quality and debt collection was a surprise choice as chief credit adviser: Mr Saúl Peregrina, a 76-year-old colleague with more than half a century of experience in the risk assessment business.

"The man is a walking credit bureau," Mr Lagos enthuses. "Mr Peregrina knows at least three generations of every business family in Mexico."

The need to bring Mr Peregrina out of retirement is indicative of the strong personal ties that still govern business relationships in Mexico, as well as the dearth of professionals who really understand credit risk.

"I've lived through all the changes in the banking system, and all the crises as well. But no crisis has been as difficult as the one we are going through now," says Mr Peregrina, who began his banking career in 1938 as a clerk in Bancomer's Puebla branch.

Mr Peregrina is reluctant to criticise his predecessors at Serfin, but suggests that after privatisation in 1991-92, most banks abandoned common sense in the race to sign up customers and expand their credit base.

Between 1992 and 1994, loans to the private sector increased by 220 per cent, or more than 30 times the growth in the economy. Banks also lent to their shareholders, accepting overvalued bank shares as collateral. "This was a sin," Mr Peregrina says. When the stock market crashed in early 1995, a majority of Mexican banks were left with unpaid loans backed by worthless collateral.

"The newly-privatised banks thought they had long trousers," Mr Peregrina says, "when in fact lending had been so tightly controlled by government, there was little experience in doing business with the private sector."

Mr Lagos, the new chief executive, has put risk assessment back at the centre of Serfin's business, both to limit the damage of past-due loans and to ensure that past mistakes are not repeated.

Serfin has already sold 28.8bn pesos ($3.8bn) of bad loans, 26 per cent of its total loan portfolio, to the government under a rescue plan that requires the bank to raise $1.67bn in fresh capital by March 1997.

The loan sales significantly cleaned up Serfin's balance sheet, but have put considerable pressure on Mr Lagos to find a cash-rich foreign partner to recapitalise the bank. Serfin's controlling shareholders, including Mr Adrian Sada of Monterrey and the glass-maker Vitro, appear disinclined to sink more capital into their lossmaking bank.

Mr Lagos says Serfin is committed to finding a permanent partner to take a 16 to 20 per cent stake in the bank, but declines to indicate how soon a deal can be expected. The new partner would be asked, among other things, to repay a $290m bridge loan extended by J.P. Morgan which is acting as a temporary prop to Serfin's capital base.

Mr Lagos keeps several business manuals on his desk, including a hefty tome called "Reinventing Banking". Part of his reinvention of Serfin includes the creation of a "bad bank" within the bank, which some insiders call "the black hole", to isolate some of Serfin's largest and most complex credit problems.

"What we have put into the 'bad bank' are relationships we do not want any more," Mr Lagos says. He has appointed 16 teams to deal with the problem loans, all of which involve litigation.

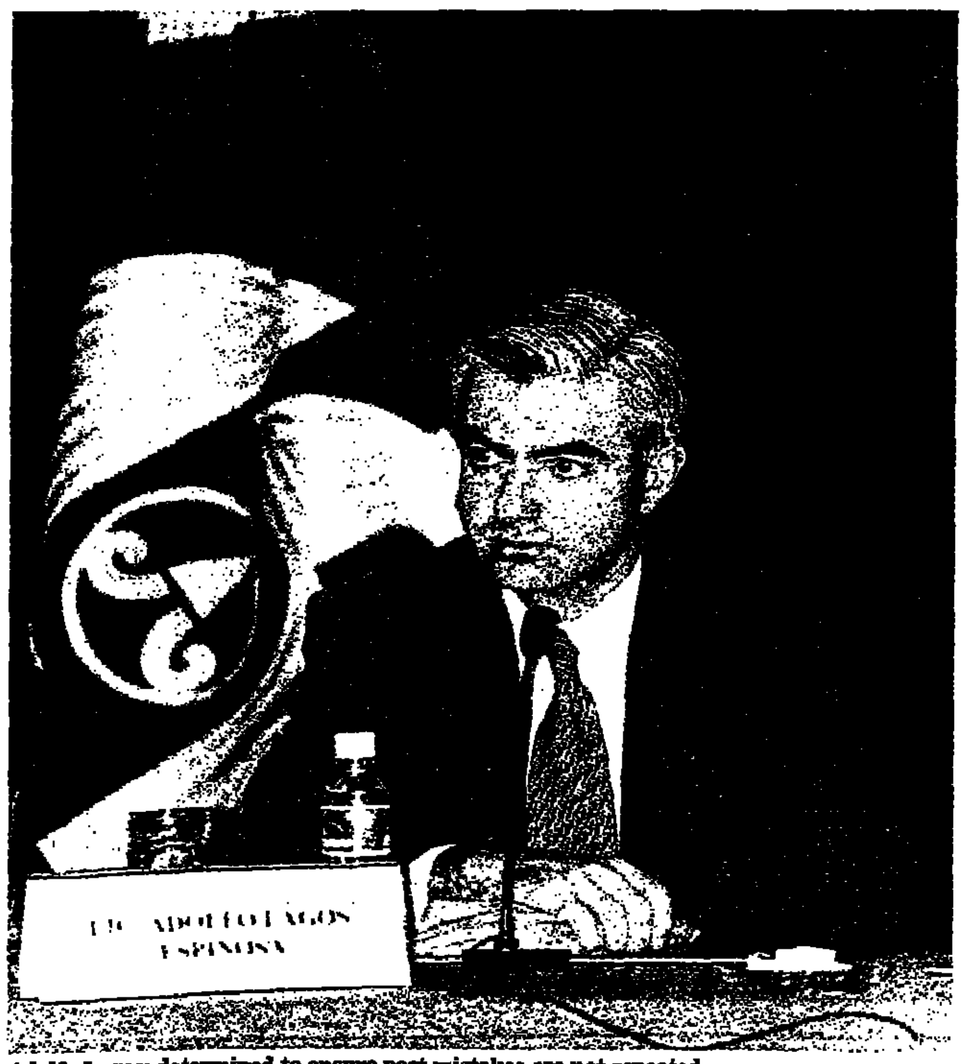
Mr Lagos has divided the country into six regions, and sent task forces to deal with debt restructurings on the ground. "Before, referrals to head office meant restructuring decisions were taking months," Mr Lagos says.

He has hired more bailiffs to strengthen the collection of consumer loans, mortgage instalments and credit card debts. "Collecting cash is not the same as collecting cows," the chief executive explains.

Debt collection has become of critical importance to Serfin because such a large portion of its assets, following the sale of bad loans to the government, are in the form of treasury bonds which accrue non-cash interest.

Mr Peregrina, who heads one of the regional task forces for debt restructurings, is worried about the "can't pay, won't pay" culture which has taken hold in Mexico. He understands that a four-fold increase in interest rates in the first months of the country's financial crisis caused most debtors to default.

But he also blames bank executives for disregarding the basic rules of risk assessment during Mexico's credit boom. "Banking officials have to know as much about the business they lend to as the company treasurer," he says. The focus of his current job is to design debt repayment schedules that are sustainable.



Adolfo Lagos: determined to ensure past mistakes are not repeated

Early next year, Serfin and the rest of the banking system will face the additional challenge of converting to US accounting practices. At present, Mexican banks only record as past-due loan instalments not paid after 30 days, while the remaining balance is considered current. The new rules will require banks to record the entire loan as past-due when no payment has been received for 90 days.

The new accounting practices are expected to show a sharp increase in the number of mortgages in default.

"We will provision aggressively," Mr Lagos says. "We will continue to create extra reserves until we feel comfortable." Serfin began to prepare for the accounting change in the first half of 1996 by setting aside loan loss provisions of 4.8bn pesos to cover the full extent of its non-performing loans.

Serfin has not done much in the way of new lending. "There is strong competition for healthy customers such as exporters," Mr Lagos says, even when the margins in trade finance have become wafer-thin. The consumer loan market, following the peso devaluation, has shrunk to half its previous size and will not grow for many years, as Mr Lagos does not expect consumers to recover their purchasing power before the turn of the century – "if all goes well," he adds, sceptically.

"The only definitive answer to the banking crisis is to have economic growth for several years," he says.

Leslie Crawford

AMERICAS NEWS DIGEST

Moody's upbeat on US corporate debt

Moody's, the US credit rating agency, yesterday unveiled statistics which suggest that the US corporate sector is in its healthiest condition for 20 years.

The figures offset the concerns of some analysts that Wall Street is overvalued and help explain why the Dow Jones Industrial Average, which passed 6,000 in early trading yesterday, has gone from strength to strength.

Moody's charts the number of credit upgrades – occasions when it takes a more positive view of a company's ability to repay debt – against downgrades every quarter. The balance for the third quarter shows upgrades outpacing downgrades by 80 per cent, the highest level in the two decades that Moody's has tracked this measure of macroeconomic strength.

By volume, the third-quarter figure showed that $55bn of debt was upgraded while only $22bn was downgraded. In the late 1980s, by comparison, downgrades outpaced upgrades by roughly 80 per cent.

Moody's argues that the background to the improving debt situation of corporate America lies in the heavy cost-cutting and restructuring of the past five years, continued earnings growth and the broad strength of the world economy.

Mr John Lonski, Moody's chief economist, argues that the situation has improved further because mergers and acquisitions have tended to be financed by equity, rather than debt as was the case in the 1980s.

When the figures are broken down, they show that manufacturing and heavy industry benefit at the expense of casinos and insurers.

Industrials saw 60 upgrades accounting for $39bn of debt, compared with 36 downgrades accounting for $14.2bn. At the other end of the scale, general retailers, including foods, non-durable goods and restaurants, suffered 11 downgrades and no upgrades, representing a total of $4.46bn, because of intense internal competition.

Peter John, London

Travelers advances 25%

Travelers, the US financial services conglomerate, yesterday posted third-quarter net profits of $591.8m, a 25 per cent increase on the comparable period last year. The group includes the Aetna property and casualty insurance company, as well as the Smith Barney brokerage and the Primerica life assurer.

Smith Barney's net income increased 17 per cent to $208.7m, up from $177.9m in the equivalent quarter. An increase of 26 per cent in asset management fees, reflecting growth in mutual funds and institutional managed accounts, underpinned this increase.

Loan loss provisions forced down consumer finance profits, in spite of a 15 per cent growth in net receivables. Real estate and personal loans helped expand the volume of loans but operating earnings were down 17 per cent to $54.1m.

The Primerica life assurance division registered a sharp increase in mutual fund sales, up 42 per cent on the equivalent quarter to $557.3m. Its overall operating earnings increased 17 per cent, to $67.7m, buoyed by continued increases in life assurance in force ($357.2bn, compared with $344.7bn a year earlier).

The figures were better than expected, and Travelers' share price rose $1¼ to $53⅛ in early trading, ahead of the market trend.

John Authers, New York

Cisco in $79m software buy

Cisco Systems, the leading data networking equipment manufacturer, plans to acquire Netsys Technologies, a privately-held network management software company, in a stock deal valued at $79m.

The acquisition is Cisco's 14th in the past two years as the company has moved to consolidate its lead in the high-growth networking market. Cisco is the primary supplier of "routers" for the Internet – the systems that direct traffic on the global network.

The Netsys acquisition will add Internet-standard network management software to Cisco's widening range of products. The software company has developed programs that enable network managers to view, configure and measure the performance of a network.

Separately, Cisco said that it ha rescinded its stock repurchase programme due to uncertainties created by a change in accounting rules. Cisco shares were trading at $65¼ in mid-session yesterday, down slightly from Friday's close of $65⅝.

Louise Kehoe, San Francisco

Kodak to form new unit

Eastman Kodak, the US photographic group, plans to form a new business unit aimed at the entertainment industry, which it called "a market opportunity without boundaries". The Entertainment Imaging division will be based on Eastman's current Professional Motion Imaging unit, which serves feature film, television, commercial production, and interactive media customers.

The new unit will have four main elements: Kodak's current Professional Motion Imaging division, Kodak Imagination Works, a newly-established Motion Imaging Platform Centre, and an area called New Business Ventures. It will be based on the West Coast in the next few months, and headed by Mr Joerg Agin, who led the company's motion picture and television imaging business unit from 1988 until 1992, when he joined MCA Universal Studios. Mr Agin returned to Kodak last year to lead its efforts to develop new entertainment imaging markets.

"Joerg's career inside and outside the company has provided him with an understanding of entertainment – not just as an industry but as a set of opportunities," Mr George Fisher, Kodak chairman, said. "Under his leadership, we expect to grow Entertainment Imaging into a significant worldwide business."

Kodak Imagination Works will create and use film content, such as computer-generated animation, for a variety of purposes.

Mr Agin said the aim was "to provide a research and development environment in which film scientists work side-by-side with those who are experts in digital imaging and software development".

Kodak's stock added $1⅛ to $77⅝ in late morning trading on the New York Stock Exchange.

Reuter, Los Angeles

Fogade to sell Isla Bonita stake

Fogade, the Venezuelan state deposits guarantee fund, is to sell its 15 per cent share in the five-star Isla Bonita tourist complex on Margarita Island for a base price of $1.8m. The remaining 85 per cent share is held by the Aruba-based International Tourist Fund, while the hotel is currently run by Spain's National Blind Organisation, ONCE, one of the world's largest hotel operators. The auction will be held on October 29, Fogade said in an advertisement placed in the national press. Fogade received the 15 per cent hotel share as a guarantee against help proffered to Sociedad Financiera Fiveca during Venezuela's 1994-95 financial crisis.

Reuter, Caracas

H&R Block names new chief

H&R Block, the tax and financial information services company, has named Mr Frank Salizzoni as president and chief executive. Mr Salizzoni has been acting president and chief executive since June, replacing Mr Richard Brown, who became chief executive of Cable and Wireless, the UK-based telecoms group, on July 1. Mr Salizzoni has also been named chairman of its CompuServe unit. CompuServe said Mr Bob Massey will continue as president and chief executive for the company.

AP-DJ, Kansas City

ASIA-PACIFIC NEWS DIGEST

CSR warns of fall in interim profits

CSR, the Australian building materials, aluminium and sugar group, warned yesterday that interim profits for the six months to end-September were likely to be about 20 per cent down on the corresponding period a year ago. "Unless trading conditions improve, this trend will continue for the full year," it said.

CSR said that if the first forecast proved correct, the interim dividend would be cut by 2 cents to 12 cents a share. If there were no sign of improvement in full-year profitability, a reduction in the final payout would also be likely. In the last full year, the Sydney-based group made an after-tax profit, including abnormal items, of A$330.8m (US$261.6m), down 16 per cent on the previous year, with A$204.1m coming in the first half. The company blamed the gloomy outlook on continued low volumes and "intense price competition" in Australia's building products market, although it stressed that its US operations were making record profits.

It said the sugar division's profits for 1996–97 should be close to last time's, in spite of the fall in prices, but that aluminium profits would reflect falling world prices.

Nikki Tait, Sydney

Foster's sees improvement

Foster's Brewing, the Melbourne-based drinks group, told shareholders yesterday it was looking for higher net profits in the current year, in spite of higher interest charges and tax charges. "I don't think there's any reason why we won't [better 1995–96], but it will be a tough task, Mr John Ralph, Foster's new chairman, said at the annual meeting.

Mr Ralph said the company was still looking at acquisition opportunities, including in the Asian region. It also expected its loss-making Chinese breweries to become profitable before the end of the decade. "We expect to be in profits by 1999, which will be six years from when it started," Mr Ralph said. He said after the meeting Foster's was still reviewing its civil court action against Mr John Elliott, the Melbourne-based businessman who ran the company in the late-1980s. Mr Elliott, and two former colleagues, were acquitted in an associated criminal case in August.

Nikki Tait

Surge at Mitsukoshi signals retailer recovery

By Gwen Robinson in Tokyo

Mitsukoshi, Japan's leading department store operator, has reported its first increase in five years of half-year sales and profits. The improvement is a fresh indicator of a patchy but gathering recovery in Japanese consumer confidence.

The department store, which is seen as a bellwether of the health of Japan's vast retail sector, *reported an almost four-fold* increase in unconsolidated pre-tax – or recurring – profit to Y4.08bn ($36.5m) for the March–August half compared with the same period last year.

Net profit rose to Y2.46bn in the six-month period, from Y587m in the 1995 first half. Sales rose 2.8 per cent to Y380.04bn from Y369.81bn. Per-share earnings soared to Y5.11 from Y1.22. The company will skip an interim dividend, but said it would offer a final payout of Y6.

Mitsukoshi attributed the better-than-expected performance to recent cost-cutting measures including the merging of operations and transfer of the company's entire distribution system to a subsidiary, and low interest rates. Mitsukoshi has also promoted its membership sales strategy, which focuses on a credit card that offers special benefits for members.

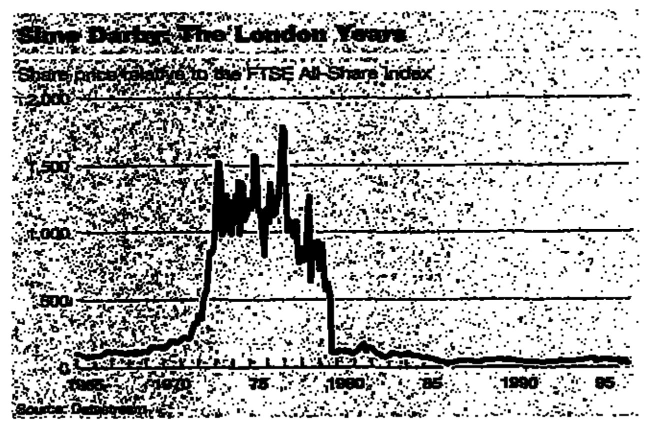
The company also cited the successful launch of a clothing store in Osaka aimed at professional women, and strong sales of imported women's brand apparel, miscellaneous goods and small personal products.

For the full 1996 business year, Mitsukoshi forecasts growth in pre-tax profits to Y9.30bn from Y5.57bn, on estimated sales of Y770bn, up from Y756.58bn in 1995. Net profit is expected to grow 59.2 per cent to Y3.2bn.

Retail analysts say Mitsukoshi's strong performance could indicate a revival in consumer spending, and several leading securities houses have forecast a modest year-on-year increase of 2.5–3 per cent for September monthly sales figures of Tokyo department stores, due out this week. Household expenditures are also expected to stop falling, although figures for August showed a 1 per cent year-on-year decline. In spite of signs of recovery, Mitsukoshi said department store sales for the near-term would most likely continue to lack vigour.

Sime Darby delists from London exchange

By James Kynge in Kuala Lumpur



Sime Darby, Malaysia's largest conglomerate, is to delist its shares from the London Stock Exchange from the close of business today. It says the cost of maintaining a London listing outweighs the gains.

The company said in a circular to shareholders yesterday that the development of Malaysia's stock market, the Kuala Lumpur Stock Exchange (KLSE), as a global capital market had reduced the need for an overseas listing.

In addition, the expense of keeping a listing on the London exchange and on the branch register of shareholders in the UK was not justified by the lacklustre trading in Sime Darby's shares there, the company said.

On August 31, there were 2,959 Sime Darby shareholders in London who owned a total 20,752,118 shares, or 0.9 per cent of the company's issued and paid-up capital.

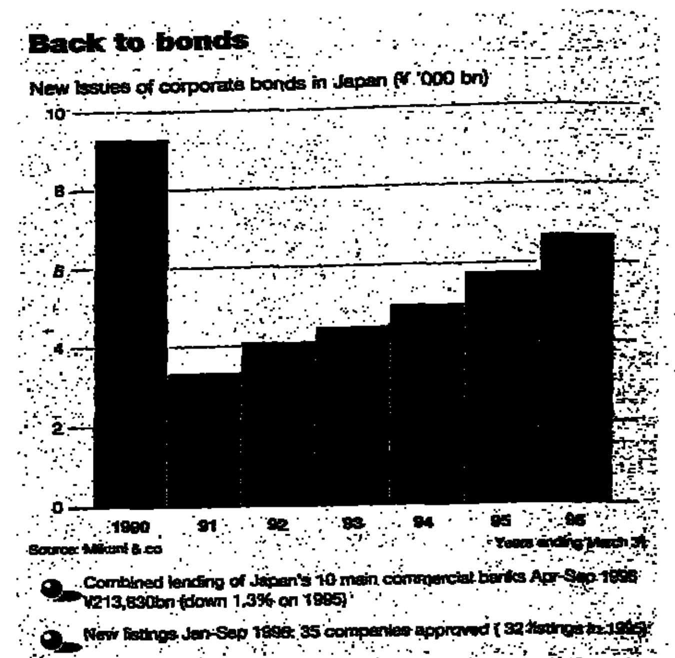
Existing shareholders in London will be issued with replacement certificates for an equivalent value of shares in Sime Darby on the KLSE, the company said.

Although Sime Darby has subsidiaries in the UK and *other parts of Europe, most* of its business is done in the Asia-Pacific region.

Brokerage house analysts said the delisting from London was part of the conglomerate's efforts to focus increasingly on the booming Asian region.

Japanese go straight to markets to raise cash

Corporations are shunning banks and turning to bond and equity issues



Japanese companies seeking funds are increasingly shunning bank loans and fuelling a boom in direct corporate *fundraising through bond* issues and market listings.

Although low interest rates should make bank lending attractive, the relaxation of regulations governing bond issues has encourage use of a potentially more lucrative source of funds for companies. In addition, this method enables them to sidestep the tighter criteria banks have imposed for *loans following the collapse* of the bubble economy of the 1980s.

Companies in Japan issued a record Y6,950bn ($62.3bn) of corporate bonds in the domestic market in the nine months to the end of September, with Y4,500bn of the total in domestic straight bonds, according to the Bond Underwriters Association of Japan. Analysts have predicted that the amount of domestic straight bonds will rise to Y6,000bn for the whole of 1996, nearly 20 per cent more than 1995's total of Y5,046bn.

The figures contrast starkly with the downward slide in bank lending. Outstanding loans by Japan's top 10 banks fell 1.3 per cent in the six months to September from the previous half-year, according to the Federation of Bankers' Associations of Japan. The combined lending balance of the 10 banks stood at Y213,839bn on September 31.

The Bond Underwriters Association says the liberalisation of financial requirements for bond issuance from April had made many more companies eligible to issue *corporate bonds in the* domestic market.

One example is Fuji Co, a supermarket operator in northern Japan, which is planning Japan's first ever junk bond issue. Fuji has shares traded over the counter, and is planning to issue Y2bn in seven-year convertible bonds.

Japan's largest international telecommunications company, Kokusai Denshin Denwa (KDD), announced last month it was returning to the domestic corporate bond market for the first time in more than two decades. In a effort to finance its growing overseas investment and redemptions of maturing debt, KDD has two forthcoming issues: one five-year and one 10-year straight bond for a combined Y60bn.

The Y30bn 10-year issue, with a coupon of 3.05 per cent, will be underwritten by the securities subsidiary of the Industrial Bank of Japan, IBJ Securities. It will be the first time the securities subsidiary of a bank has won a bond underwriting contract in the telecoms industry.

And in the shape of things to come, as domestic competition heats up in the corporate bond market, more corporations are sweetening their bond issues with free gifts and incentives.

Orix, Japan's largest leasing company, announced last week it would offer gifts including lottery tickets and telephone cards with its planned issue of five-year straight bonds worth Y10bn. The bonds will have a face value of Y1m, and the issue will be underwritten by Daiwa Securities.

Earlier in the year, Tokyo Dome, operator of Tokyo's largest sporting and entertainment venue, offered lottery prizes with straight bond issues. The company last week announced it was planning to issue straight corporate bonds to *refinance* outstanding bonds maturing on November 10. The amount of the new issue is likely to be Y20bn.

The steady shift of corporate Japan toward direct fundraising has also propelled an infusion of new equity into the stock market.

The Tokyo Stock Exchange at the end of September had approved 35 new listings since the beginning of the year, and is considering at least 20 more applications for approval by the year-end. The figure compares with 32 new TSE listings for the whole of 1995 and, if all applications are approved, would exceed the peak of 40 new listings in 1988, at the height of the speculative bubble economy era.

The growing pace of corporate bond issuance and stock listings has caused concerns in some investor circles of oversupply

Trading up: Tokyo exchange drawing more new listings

Furthermore, 46 per cent of all financing for the 1,800 or so companies listed on the TSE last year came directly from capital markets, up from 24 per cent in 1974, according to Daiwa Securities.

Feeding the growing enthusiasm for direct fundraising are regional financial institutions, which are stepping up bond purchases for fund management, and individual investors, who are showing their disappointment with continued low rates on bank deposits.

With every indication that the Bank of Japan will keep the discount rate at an all-time low of 0.5 per cent, and that inflation will remain subdued, companies are likely to continue issuing corporate bonds for the time being, analysts say.

Deregulation by the finance ministry, which eased requirements to attach collateral to domestic corporate bonds, also encouraged more issuance, according to the Bond Underwriters Association. As corporate bonds tend to be unsecured, they enable companies to put their assets to other uses.

Although yields on corporate bonds have remained low, Japanese companies have never found it easier to issue and invest in bonds, says Mr Marshall Gittler, analyst with Merrill Lynch.

Corporate bonds with strong credit ratings currently yield only around 0.1 percentage point above 10-year Japanese government bonds, which rose 0.4 percentage points to 2.8 per cent on Monday. With the finance ministry considering further relaxation of restrictions on corporate bond issuance, there are strong expectations among bond fund managers at leading asset management firms that prices of corporate bonds will come down in the mid-term.

However, the growing pace of corporate bond issuance and stock listings has generated concerns in some investor circles of oversupply. This is particularly the case in the stock market, where trading volume has dropped to anaemic levels – even as the latest relaxation of criteria is expected to lure more companies to apply for listings in the next few years. Volume on the TSE yesterday dropped to the year's low of 187m shares.

Analysts are divided about the ultimate impact of such fundraising zeal on the equity and bond markets. "A surplus supply of shares should theoretically lead to a decrease in stock prices. But newly-listed stocks don't necessarily cause harm to the market and can even stimulate new investments," said Mr Hideaki Akimoto, strategist at the Daiwa Institute of Research.

"More and more companies are turning to the market, especially the over-the-counter market. I don't think these new shares are excessive because, in terms of demand and supply, there's still plenty of cash in the market," said Mr Minoru Tayama, equities analyst with James Capel.

However, while companies would appear to favour corporate bond issuance over the equity market for the time being, equities are likely to pick up pace next year, thanks partly to further planned deregulation of the asset management field, notes Mr Makoto Suzuki of Daiwa Research Institute.

From next year, regulations which govern fund management – including a 50 per cent limit on the amount of funds that can be held in equities – will be relaxed, enabling life insurance, trust banks, and investment management companies to purchase a higher proportion of equities.

The move will bring Japan more in line with asset management industries around the world, and is ultimately bound to reinvigorate the equity market, Mr Suzuki said.

"For now, and into next year, corporate straight bond issuances are likely to continue increasing, partly because the equity market is not performing particularly well, and because the cost of debt is still very low, with indications that the Bank of Japan will hold the discount rate for this year and into next year," Mr Suzuki said.

IBJ cuts rates, Page 6

Gwen Robinson

COMPANIES AND FINANCE: UK

Blenheim fate in the balance

By Motoko Rich in London and David Owen in Paris

The fate of Blenheim, the exhibitions organiser, hung in the balance last night as it emerged that Compagnie Générale des Eaux, the French water utility, had provided United News & Media with an opportunity to buy its 15 per cent stake in Blenheim.

United declined to comment yesterday, but it is understood Compagnie Générale des Eaux has agreed to sell its stake to United, which has been mooted as a suitor for Blenheim since June, if United wants to buy it.

The news came as the market braced for VNU, the Dutch publishing and information services group, to move in the market again to buy a further 10 per cent of Blenheim following its dawn raid last week, when it swooped on a 14.99 per cent stake.

Under takeover code rules it is allowed to raise its holding today.

This raises the prospect of a takeover battle between United and VNU, which said last week it reserved the right to bid for Blenheim "in the event of a full offer by a third party".

It is understood that United is still discussing whether to launch a bid with its advisers.

Until now, the French company has supported the Blenheim board, with its stake forming a block with the 28 per cent owned by directors and their relatives. A successful suitor is likely to need a board recommendation.

Shares in Blenheim fell 10½p to 473½p. Shares in United eased 9p to 653½p.

United emerged as a potential bidder in June, when it is thought to have approached Blenheim about a possible offer of 450p a share, valuing the company at £490m. Bid speculation intensified in July when Reed Elsevier, the Anglo-Dutch publishing and information group, emerged as another contender for control of the exhibitions organiser.

Talks between Blenheim, United and Reed are believed to have faltered on price, although the three have maintained informal contact since the summer. It is widely thought Blenheim is seeking a bid valuing the company at £500m or above.

Yesterday VNU, which surprised the market with its raid last week, said it was reviewing its options which included buying a block of shares from parties close to the Blenheim board.

Cordiant may float US Internet unit

By Jane Martinson

Cordiant, the advertising group which includes Saatchi & Saatchi, is considering a partial float of its New York corporate identity company.

The group said it was "looking at a number of ways of seeing Siegel & Gale going forward", but had no plans for an outright disposal. It would not comment about its specific plans for the company which it acquired 10 years ago.

Speculation about a sale has mounted with rising demand for companies involved in interactive marketing. Siegel & Gale provides an Internet service that focuses on branding and language simplification.

Sales at Siegel & Gale, which came up with the name Cordiant after Saatchi's acrimonious split with its founders at the end of 1994, are estimated at about $40m (£25.6m) for last year and profits of about $8m. The group does not separate the accounts of its non-mainstream activities.

Ms Lorna Tilbian, analyst at Panmure Gordon, said that with companies providing online services achieving revenue multiples of six times, Siegel & Gale could be worth $240m.

Such excitement about the sector could make a partial sell-off attractive for Cordiant shareholders.

If it were to decide on some form of flotation it would be most likely to file with the US Securities and Exchange Commission next spring.

She estimated the group would have net debt of £45m at the year-end, after its £21m purchase of the outstanding 47 per cent interest in Saatchi & Saatchi France this month.

KS Biomedix signs Swiss licence deal

By Justin Marozzi

KS Biomedix shares jumped 6p to 101½p yesterday, as the Aim-listed biotherapy group announced a licensing deal with Hoffman-La Roche to develop a specific antibody for the Swiss pharmaceuticals company.

Mr Kim Tan, Biomedix founder and managing director, has been developing the sheep monoclonal antibody technology for several years.

Mr Martin Myerscough, finance director, said Biomedix was impressed by Roche's approach to innovative technologies. "It's a nice name for us to be going with," he said. This is Biomedix's first licensing deal. Terms were not disclosed.

Polyclonal antibodies are produced naturally by the body to combat disease in a "scattergun" pattern; monoclonal antibodies, created in the laboratory, are more specific and can be targeted to particular cells.

Biomedix believes it is the only group worldwide to be using sheep rather than mice for its monoclonal antibody technology. Using sheep, it claims, makes the antibodies "stickier" so that they can bind more effectively to the target cell.

Where antibodies attach themselves less strongly, drug doses need to be higher and side-effects can be more pronounced.

Roche has agreed to fund the development work and pay Biomedix a royalty if the research results in a commercial treatment. The antibody is unlikely to see the market for about six years.

Analysts expect Biomedix to sign more deals. "This technology can be applied anywhere you need to attach an antibody to cell," said Mr Stuart Rollason, analyst at Beeson Gregory.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Allied London	Yr to June 30	25□	(25.1□)	9.16♥	(11.06♥)	6.5	(11.2)	2.82	Jan 2	2.82	4	4
Brancote Φ	6 mths to June 30	0.062	(0.033)	0.08L	(0.108L)	0.5L	(1.1L)	-	-	-	-	-
Five Oaks Invs	Yr to June 30	6.57	(6.13)	2.06	(2.33)	2†	(2.1)	0.45	Dec 6	0.4	0.8	0.7
Halstead (James)	Yr to June 30	77.6	(72.7)	10.6	(10.3)	23.51	(22.75)	6	Dec 6	5.5	9.25	8.5
Highland Dist	Yr to Aug 31	184.8	(180.6)	37.1♠	(42.9)	20.7	(22.1)	6.3	Jan 9	6	8.3	7.9
Waste Management	9 mths to Sep 30	916.6	(875.6)	118.1	(111.6)	19.4	(18.7)	-	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. □Rental income. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock.

Halstead flat

By Justin Marozzi

A reduction in raw material prices offset losses in the cabin and trailer division of James Halstead to increase annual pre-tax profits 3 per cent to £10.6m ($16.5m).

The flooring and leisure group raised turnover from £72.7m to £77.6m in the year to June, helped by the new production line which sold 700,000 sq m of Polyflor XL 2000, its new flooring, in its first full year.

The group's core business is the commercial vinyl flooring division, which accounts for about two thirds of group sales and about 70 per cent of pre-tax profits.

Mr Stephen Knight, finance director, said sheet and tile flooring sales in the UK were steady despite a "difficult" market and pressure on volume and margins.

Raw materials costs had stabilised but the benefits were diluted by the progress in exports which tend to carry lower margins.

The company remained strong in its UK distribution business. The group is the market leader in the UK sheet flooring business with about 55 per cent and is intent on to expanding internationally.

Export sales increased and now accounted for half of total sales. "Exports are in our blood," said Mr Knight. The group trades with 64 countries, with continental Europe representing 20-25 per cent of its export sales.

It purchased its German flooring distributor in Cologne for £2.23m to protect its sales there and help its EU market projects.

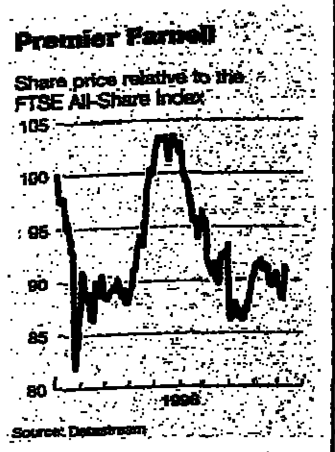
The group's Conway business, which makes security cabins, trailers and trailer tents, made a pre-tax loss of about £500,000, after "inefficiencies and poor cost control". Mr Knight said the group would "look at all the options" for Conway's future. The losses were "an irritation, not a life-threatening disease".

Profits at Driza-Bone, the outdoor clothing business, slipped as sales to the US, UK, Germany and France declined.

Net cash balances were £3.5m. Earnings per share rose to 23.51p (22.75p). The final dividend of 6p gives a total of 9.25p (8.5p), up 9 per cent.

LEX COMMENT

Premier Farnell



When Farnell bought Premier of the US for $2.8bn in February, it promised great strategic benefits at a short-term financial cost. Yesterday's results show the electronic components distributor is living up to at least half of its pledge – a look at economic value added (EVA) suggests the acquisition is destroying shareholder value. Last year, Farnell's post-tax return on capital of 14 per cent was comfortably above its 12 per cent cost of capital. Using brokers' estimates for the current year, the group's cost of capital actually falls to a little over 10 per cent, with the inclusion of a large slug of cheaper debt. But the return on capital fairly plummets, to 4-5 per cent, because of a huge increase in the capital base from £300m to £2bn – mostly due to the £1.6bn of goodwill paid for Premier.

To be fair, this deal should not be judged on its first year's performance. Mr Howard Poulson, chief executive, remains adamant that it will pay off and cites early anecdotal evidence that Farnell's UK catalogue is being well-received by Premier's US customers. The management, products and computer systems of the two companies appear to be slotting together neatly. Premier is also helping dilute the fall in profits at Farnell's volume distribution arm, where the semiconductor slump has hit hardest.

That said, Premier Farnell still has it all to prove. But shareholders who voted for the acquisition must now give the company a chance to perform.

International side behind Kier's rise

By Andrew Taylor, Construction Correspondent

Kier, the construction group bought from Hanson by its employees in July 1992 and tipped as a flotation candidate, has increased pre-tax profits 4 per cent to £7.3m ($11.4m) in the year to June.

The rise reflected a strong performance in overseas construction markets, which has enabled the group to counter subdued conditions in the UK.

Overseas profits, helped by the resolution of problems on previous African contracts, jumped before tax from £1m to £4.7m.

Pre-tax profits for the construction division before its share of corporate overheads of £3.6m (£3.3m) rose to £8.4m (£8.5m). The construction order book ended the year 7 per cent higher at £451m, the highest level since the buy-out.

Housing and commercial property profits, however dipped to £2.6m (£3.8m), reflecting the timing of commercial property sales.

The housing division expanded this year, with the purchase for £16.1m of the south of England homes business of the Miller Group.

In spite of the Miller purchase, the group had net cash of £41m (£53m) at the end of June. It is seeking approval of preference shareholders to pay a maiden dividend of 1.6p on the A ordinary shares. It would be would be covered 10 times by earnings per share of 16.1p (14.6p). Group turnover rose to £614.6m (£585.7m).

French court clears Kalon restructuring

By John Hamilton

Kalon, the decorative paints company, has received permission from French courts to go ahead with the restructuring of its French operations with the loss of 100 jobs.

The move lifts a court injunction sought by French trade unions in August to block the cost-cutting plan at Euridep, a paints subsidiary of Total, the oil group with which Kalon merged in June last year.

This was the second time the redundancy programme had come before the French courts: a plan was rejected last December.

Mr Mike Hennessy, chief executive, said it had not needed to make concessions to the unions to get the court's approval, but procedural amendments had been necessary. The job losses would be "mostly administrative, accounting, clerical and managerial with some technical personnel and depot staff".

The closure of 15 distribution depots and the loss of 180 staff has delivered £10m savings forecast at the time of the merger.

Analysts expect further savings, but are awaiting the union reaction before adjusting their figures. Profits for 1996 were forecast at about £35m ($54.6m), against losses of £2.98m, with earnings per share of 6.3p (losses of 1.23p).

LAW

No grace for EU directives

European Union member states which fail to implement directives by the date set are guilty of a serious breach of European law giving rise to a right to damages, the European Court of Justice ruled last week.

Damages will be payable provided the directive grants rights to individuals which are identifiable and a causal link exists between the breach of the state's obligation and the loss and damage suffered.

The judgment arose in the context of Germany's failure to implement the package holidays directive in time. Under the terms of the directive, the organiser and/or retailer of package tours had to provide sufficient evidence of security to compensate travellers in the event of the tour operator becoming insolvent. The directive had to be implemented throughout the EU by December 31 1992. Germany did not implement it until the middle of 1994.

Mr Dillenkofer and his fellow plaintiffs had bought package holidays from tour operators which became insolvent in 1993. They applied for compensation but were refused it. So they sued the German government on the grounds that if the directive had been implemented on time they would have been protected.

Relying on the European Court's judgment in the 1991 Francovich case, which provided that damages were available from a member state which had failed to implement a directive on condition that certain criteria were fulfilled.

The German government argued that not only were the criteria laid down in the Francovich case not satisfied in the present case, but also that failure to transpose a directive within the time limit could not render a member state liable in damages unless there had been a manifest and grave breach of European law for which it could be held responsible.

The German court referred the matter to the European Court of Justice for determination. The court first examined the conditions under which a member state could incur a liability in damages.

It reiterated its recent case law, stating that individuals who suffered harm were entitled to damages where the rule of law infringed had been intended to confer rights on individuals, the breach was sufficiently serious and there was a causal link between the breach and the damage suffered.

The court ruled that the criteria laid down in the Francovich case were the same as those set out above. The conditions under which state liability in damages arose depended on the nature of the breach.

Where a member state was not called on to make any legislative choices and had reduced or no discretion in the manner it was obliged to act, then the mere infringement of European law was sufficient to give rise to a liability in damages.

Where a member state failed to implement a directive within the time limits set down – an action over which it had no discretion – then that failure constituted, *per se*, a serious breach of European law giving rise to a liability in damages.

The court reiterated that a right to damages could not depend on a prior finding by the court of an infringement of European law attributable to the state, nor on the existence of intentional fault or negligence on the part of the organ of the state to which the infringement was attributable.

It ruled that the other criteria set out above were fulfilled in the case and therefore the conditions were met for the national court to find the German government was liable in damages.

C-178/94, C-179/94, C-188/94, C-189/94 and C-190/94: Dillenkofer and others v Germany, ECJ FC, October 8 1996.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Spanish market regulator

Juan Fernández Armesto, Spain's new stock market regulator, has promised more flexibility and less bureaucracy at the start of his four year term as chairman of the Comisión Nacional del Mercado de Valores, CNMV.

Fernández Armesto, a contemporary and friend of prime minister José María Aznar, is representative of the new breed of highly professional and business-friendly administrators that the centre-right Popular party has nominated to top positions since it won general elections last May.

The son of a wealthy newspaper-owning family in Galicia – his father was a distinguished journalist and his mother a conservative member of parliament – Fernández Armesto was a senior member of a large Madrid law firm, where he established a reputation as an expert on public offerings. His mandate, which is renewable for a second four year term, will coincide with new regulations to adapt the domestic markets to the single currency. One of his priorities will be to encourage listings by small and medium-sized businesses and to ease investment by domestic funds in equities and derivatives.

Fernández Armesto replaces Luis Carlos Croissier, a former Socialist industry minister, who was appointed the CNMV's first chairman in 1988 and supervised the liberalisation of the Bolsa. *Tom Burns*

SocGen picks Briton

Société Générale, France's largest publicly-held bank, has chosen Brain Kaye to head Fimat, its international futures broking group. Kaye (left) is unusual in French banking circles, not only for being a Briton – the first to head Fimat – but for moving into the top slot from the other side of the Atlantic. He has been living in the US since 1994, heading Fimat USA and overseeing operations in north America and Brazil.

He succeeds Alain Closier, who will become executive vice-president of Société Générale's banking services division. Like many countries, France has had to import its derivatives talent, having only had its own futures market, the Matif, in operation since 1986. Fimat was founded in the same year to supply a home-grown member firm for the new exchange.

Kaye is a 24-year veteran of the futures industry, and has been with Société Générale for 19 years. As chairman of Fimat Futures UK, he was instrumental in building SocGen's futures subsidiary into a profitable global network. The full-service brokerage group now has 1,000 employees and memberships on 31 of the world's futures exchanges. *Laurie Morse*

Cortecs gears up

Martin Preuveneers, the man who sold the world Zantac, Glaxo's blockbuster drug, is joining biotechnology company Cortecs as international operations director.

Cortecs, which specialises in developing pills to replace injectable drugs, is close to completing clinical trials on some of its key drugs. By Christmas, it should know whether its calcitonin pill, which prevents the breakdown of bones, is going to reach the market, and whether its insulin pill, for diabetics, works.

Preuveneers has been appointed to launch the new products. Glen Travers, chairman of Cortecs, explains: "Martin has that rare experience of knowing what medical claims have an impact in the marketplace."

Preuveneers originally left Glaxo Wellcome to become chief executive at Therexsys, the UK's only gene therapy company. However, he resigned within a year, after failing to adapt comfortably to life in a small biotechnology start-up.

Travers says he does not foresee the same difficulties at Cortecs. The company is quoted in London, Sydney and New York. With funds in place and products moving close to the market, "the challenges of the start-up phase are behind us," he says. *Jenny Luesby*

Hartt for Salomon

Stanley Hartt, corporate lawyer and former Canadian federal deputy finance minister, is moving to Salomon Brothers Canada after salvaging the remnants of Robert Campeau's north American retail and property empire.

Hartt, 58, held the key post at finance in Ottawa from 1985 to 1989 and then became chief of staff to former prime minister Brian Mulroney. The mid-1980s were turbulent: "The day I was sworn in as deputy minister," he recalls, "the government shut down two banks. But I saved the next seven."

In 1990 he joined the Campeau retail property empire, which had collapsed under billions of dollars of debt incurred for two mammoth US takeovers. Hartt arrived after two recapitalisations and Campeau's departure. He placated the banks, sold assets and put the remaining properties into Camdev, which now owns 2.6m sq ft of commercial space in Ottawa. It is profitable and expanding again. Hartt was president and chief executive at Camdev and will remain part-time chairman of the board while taking over the active chairmanship of Salomon Canada.

"He is one of Canada's most respected business leaders," said Robert Gemmell, president of Salomon Brothers Canada, "and he will help to make our company the strongest among Toronto's international dealers."

Salomon has nearly 100 major Canadian clients. "We offer access to capital markets that Canadian dealers don't service very well," adds Gemmell. *Robert Gibbens*

ON THE MOVE

■ William Razzouk, 48, who recently resigned after a brief tenure as president and chief operating officer of America Online, joins ADVANTA as chief executive of a new subsidiary involving non-financial consumer services.

■ Guilio del Ninno succeeds Giancarlo Cimoli as managing director of EDISON, the Montedison unit, following Cimoli's appointment as head of the Italian state-owned railway.

■ John Jartz, 43, takes an expanded role as vice-president – general counsel and business development at QUAKER OATS, with responsibility for the newly combined former law and business development departments.

■ Sir Gerald Whent, chief executive of VODAFONE since the UK's leading mobile telephone group was formed 13 years ago, is retiring at the end of the year. He will be replaced by Chris GENT, managing director of Vodafone in the UK and an executive director of the Group.

■ Andrew Taylor, 38, has been promoted to president and chief operating officer of McDONALD'S Restaurants, which runs the UK's 700 McDonald's outlets. Taylor, previously executive vice-president, succeeds Paul Preston, 48, who has been appointed chairman while remaining chief executive.

■ Edythe Parkinson, 48, executive vice president of Suncor, the western Canada synthetic oil producer, is leaving to become president of CS RESOURCES, and expanding Calgary oil producer. Mike Asher, vice president at Suncor's Ontario refinery, takes her old job.

■ Jack Schmucki, president of Sony Europe, succeeds Schinichi Takagi as president of the SONY ESPANA board. Takagi was recently appointed vice-president for consumer goods at Sony Europe.

■ Heinrich Igelbuescher has been appointed head of German industrial group THYSSEN INDUSTRIE's new plant engineering division, incorporating Thyssen Still Otto and Thyssen Henschel.

■ Eskandar Maleki joins the board of TULLOW OIL, the Dublin-based oil & gas exploration and production company in which he has a 9% interest.

■ Craighton Twa rises to president and chief operating officer of ATCO Ltd. and CANADIAN UTILITIES, following the retirement of John Wood. Twa joined Alberta Power, part of the Atco Group, in 1959.

■ Louis Salvatore, 40, becomes vice-president global purchasing for LEAR CORPORATION.

■ Dick Wells becomes executive director of the MINERALS COUNCIL OF AUSTRALIA, replacing David Buckingham who has moved to the Business Council of Australia. Wells was previously executive director of the Australian Petroleum Production and Exploration Association.

■ Rathikant Basu has been named chief executive of STAR TV India, part of News Corp's Hong Kong-based satellite TV arm. Basu, a former public servant, was most recently secretary at the department of electronics. Gene Swinstead remains Star's managing director for India, reporting to Basu.

■ Vincenzo Damiani has retired as European president of DIGITAL EQUIPMENT. He is succeeded by Hans Dirkmann, president of European operations.

■ Norman Currie has been appointed chairman of Canada's AULT FOODS. He succeeds Don Loadman, who has resigned. Germaine Gibara and Jack Scott join the board.

■ Thomas Vogel has been appointed president of MOSAIC TECHNOLOGIES.

■ James Mooney, 48, currently chairman and chief executive of OM Group, joins the board of BRUSH WELLMAN, producer of beryllium and other engineered materials.

■ Erwin Königs, previously chairman of the executive board of Linotype-Hell, has been appointed president and chief executive of SOFTWARE AG, from November 1.

■ Otto Jelinek, a former Canadian government minister who recently returned to his birthplace, is to chair the DELOITTE TOUCHE TOHMATSU practice in the Czech Republic.

■ Emir Adigüzel, former deputy general manager of Canakkale Cimento, becomes general manager of HC Trading, a new company handling overseas trading for CBR Group and Heidelberger Zement.

■ James Culliton has resigned as chairman of UNIDARE, the Dublin-based industrial group. Jack Hayes, a director since 1990, replaces him.

■ Abu Bakar Abdul Karim has resigned as group managing director of MALAYSIAN RESOURCES CORPORATION. He was one of three senior managers involved in the management buy-out of the Gunung Petaling Sdn cable manufacturing subsidiary.

■ Stephen Ng becomes deputy chairman of Hong Kong property and communications group WHARF HOLDINGS. Ng has been managing director since 1989.

■ Gerald Mille has been appointed managing director Asia of DRAGAGES ET TRAVAUX PUBLICS, with regional responsibility for both Dragages and its parent company, Bouygues. Ludwig Reichhold becomes general manager, handling Hong Kong operations.

■ Further changes have been announced at AST RESEARCH, the US maker of personal computers, following Samsung's purchase of a controlling stake. Hoon Choo, 50, succeeds Michael Willcocks as senior vice-president, Asia Pacific. Gerald Devlin has resigned as senior vice-president, Americas, handing over to YS Kim, AST's chief executive, on an interim basis. Ian Diery, chief executive, and Joseph Norberg, chief financial officer, had already resigned.

■ Wayne Smith, 46, has resigned as president –operations after 24 years at FEDERAL-MOGUL, the vehicle parts manufacturer where Dennis Gormley recently resigned as chief executive.

■ John Mullin has been appointed vice-president, Latin American equity strategist at SALOMON BROTHERS, co-ordinating equity strategy in Latin America. He previously worked for Smith Barney.

■ Mark McEachen, 38, previously with Chrysler Corporation, has joined TRANSAMERICA CORPORATION as vice-president and treasurer.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

INTERNATIONAL CAPITAL MARKETS

Finnish spreads fall on ERM acceptance

GOVERNMENT BONDS

By Richard Adams

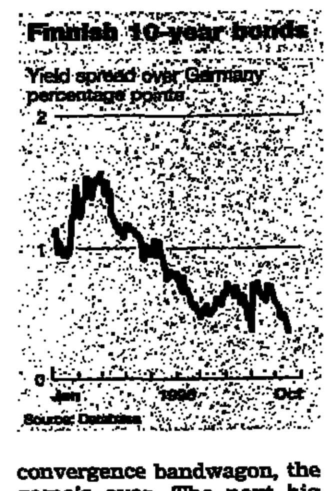
A contraction in Finnish bond yields was the highlight in a relatively quiet day in government bond markets yesterday. With the US market closed for a public holiday, the market was unable to break the sluggishness it encountered late last week. Trading volumes were thin and the French, Italian and Swedish markets all lost ground against Germany.

■ Yields on Finnish government bonds fell following the country's acceptance into the European exchange rate mechanism at the weekend. The 10-year yield spread over Germany narrowed by 5 points to 39 basis points. However, analysts warned that ERM membership could now act as a brake on further convergence.

Mr David Brown, chief European economist at Bear Stearns in London, said: "[Finland's] convergence against Germany has been the best thing since sliced bread, moving from over 300 basis points to under 40, but it may be going a bit stale."

Finland's economic fundamentals, including the second lowest inflation rate in the ERM and a falling budget deficit, put it in the front rank for membership of a single currency but Mr Brown said there was nothing else to push bond yields lower.

"That's all the good news finished, and it'll be harder then getting blood out of a stone to carry yield spreads lower," he said. "Although you can't rule out tail-end investors jumping on the convergence bandwagon, the game's over. The next big move is that investors may decide to take profits and run."



■ By contrast, high-yielding European bonds had a relatively poor day, with the yield spreads of Italian and Swedish bonds over German bunds widening. Italy's 10-year yield spread over Germany widened by 3 basis points to 232 points, while the Swedish-German spread moved out from 110 points to 115 basis points. On Liffe, the Italian December BTP future lost just under a third of a point to settle at 122.98.

Spain bucked the trend with its 10-year yield spread level at 170 basis points. Unchanged producer price data for August, reducing the year-on-year rise to 0.8 per cent, confirmed the weak inflationary pressures which have helped underpin the Spanish rally.

Mr Brown argues that further outperformance is on the cards. "It is only a matter of time before we trade down to 150 basis points." However, Mr Michael Burke, a senior economist at Citibank in London, said that emerging recovery in Germany put the convergence efforts of Italy and Spain under threat.

Analysts at Credit Lyonnais said the bond markets were "under-estimating the potential for a reversal of the convergence rally" which has driven "spreads between the hard core and periphery to unsustainable levels". They added that "there has been evidence of capitulation buying in the last few weeks".

■ After its strong recent run, France also underperformed, with the yield on benchmark 10-year bonds rising by 3 basis points to 6 per cent.

The German yield spread over France, which at one point last week had reached 17 basis points, fell back from 7 points on Friday to 4 basis points last night. On the Matif, the December 10-year notional lost about a quarter of a point to 125.94.

■ German bonds drifted sideways. In the cash market, 10-year bonds fell, with yields rising fractionally to close at 6.04 per cent. On Liffe the December bund future gained 4 ticks to settle at 99.31.

■ UK gilts moved in line with Germany, with the 10-year yield spread between the two countries remaining level at 157 basis points. On Liffe, the December long gilt rose ⅛ to settle at 110 7/16, while short sterling for the same month was unchanged at 93.97, discounting a 25 basis point rise in interest rates by the year-end.

Three large offerings in Italian lira sector

INTERNATIONAL BONDS

By Conner Middelmann

The Italian lira sector was very active in the eurobond market yesterday, with three large offerings hitting the screens. The rest of the market was subdued by the US Columbus Day holiday.

Italian government bonds have performed strongly in recent weeks on speculation that Italy may be among the first group of countries participating in European monetary union. This has caused Italian yield spreads over German bonds to narrow sharply, and has heightened international investor demand for lira-denominated assets on expectations of further yield convergence and currency appreciation.

"Although the market may appear a bit tired from a trading point of view, we are still seeing a lot of interest," said a syndicate manager in Milan.

Joining the recent flurry of long-dated zero-coupon bonds, Cariplo, the Italian bank, issued L600bn of 15-year paper, callable after seven years, in a self-led deal. The bonds were issued at a price of 29.92.

Dealers said the issue would most likely be sold via the bank's domestic branches to Italian retail investors, who in recent weeks have been devouring long-dated zero-coupon bonds denominated in lire and D-Marks.

The bonds were more cheaply priced than recent offerings, but are also the lowest-rated: Cariplo has a credit rating of A1/A+, whereas other recent zeros were issued by triple-A rated borrowers.

In the fixed-rate sector, the World Bank launched L300bn of seven-year bonds which, although aggressively priced, received a warm reception, especially in the domestic market.

An official at BNL, joint book-runner with Banco Monte dei Paschi, said that although the bonds might appear tightly priced, they compare favourably with outstanding World Bank bonds in the same maturity which are trading at substantial premiums.

Moreover, bonds issued by the World Bank and the European Investment Bank have long been favourites among Italian retail investors, partly due to tax advantages they confer.

Also capitalising on investor demand for lira fixed-rate bonds, Kreditanstalt für Wiederaufbau, the German government-owned development agency, issued L200bn of six-year bonds, which attracted retail accounts in Switzerland, the Benelux and Germany, as well as some Italian buying.

The deal benefited from the fact that there are only two actively traded bonds in that maturity. Moreover, "six years is not too far out, but offers an ⅛ pick-up over five-year maturities," said a syndicate official at Paribas, joint book-runner with Credito Italiano.

KfW's status in the eurobond market has been boosted by the fact that its BIS risk-weighting was lowered to zero by several European banking supervisory authorities this year, effectively putting its debt on a par with that of the German government.

In the South African rand market, the European Investment Bank issued R100m of 14.5 per cent five-year bonds via Hambros Bank. The proceeds will be taken up in large part by Eskom, South Africa's power utility, to fund improvements in the country's electricity transmission system.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
D-MARKS							
Nederlandse Gasunie	200	2.50	90.04R	Nov 2001	0.25R	+10(5%May01)	ABN Amro Hoare Govett
GUILDERS							
LB Rheinland-Pfalz	110	(a)	99.705R	Dec 2003	0.30R	+1.56	Kredietbank Intl Group
ITALIAN LIRE							
Cariplo, London Branch(b)	600bn	zero	29.915	Nov 2011	1.875	-	Cariplo
World Bank	300bn	7.625	101.56	Nov 2003	1.75	-	Banco MPS/BNL
KfW International Finance	200bn	7.625	101.725	Nov 2002	1.875	-	Credito Italiano/Paribas
LUXEMBOURG FRANCS							
Landesgirokasse	5bn	zero	73.90	Feb 2003	1.375	-	BGL/BIL
NEW ZEALAND DOLLARS							
UBS Australia	150	8.00	101.00	Nov 1998	1.25	-	Hambros Bank
Province of Alberta(c)	100	8.00	101.25	Oct 1998	1.25	-	Toronto-Dominion Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. R: fixed re-offer price; fees shown at re-offer level. a) 5% to 2/12/00, then 6¾%. b) Callable on 4/11/03 at 49.635%. c) NZ$100m launched 7/10/96 was increased to NZ$200m. § Over interpolated yield.

CAPITAL MARKETS NEWS DIGEST

Moody's may upgrade Hungary

Moody's Investors Services, the international credit rating agency, yesterday placed Hungary under review for a possible upgrade of its credit rating. The country currently enjoys the highest speculative grade ratings from both Moody's (Ba1) and Standard & Poor's (BB+).

Moody's said Hungary's austerity programme had led to substantial improvements in both its current account and fiscal deficits as well as a reduction of its debt ratios. It said the catalyst for the changes had been a "strengthening of political resolve and conversion of economic outlook within the majority party of the ruling coalition, leading to a fundamental redirection of government macroeconomic policy".

The move could boost the prices of outstanding Hungarian eurobonds, analysts said. Mr Jonathan Hoffman, economist at CS First Boston, said Hungarian spreads has been tightening since the approval of the austerity package and that an upgrade has been increasingly expected in the market for some time.

Hungarian dollar-denominated paper was yesterday trading at between 83 and 213 basis points over Treasuries, while the country's D-Mark paper was trading at 78 to 141 basis points over German bonds.

Richard Lapper, London

Scandinavian derivatives link

Moves to cement Scandinavia as a regional centre for European derivatives trading were stepped up yesterday when OM Gruppen, the Swedish derivatives exchange operator, agreed to form a common electronic market with SOM, its Finnish counterpart.

The exchanges said they would establish electronic trading links to provide a single market for Swedish and Finnish derivatives. The move followed a similar tie-up last year between OM and the Oslo bourse aimed at establishing a Swedish-Norwegian derivatives market.

Mr Nils-Robert Persson, OM's Stockholm president, said: "We are interested in links with all the small exchanges in our neighbourhood," adding that one future move might be a link with Denmark. Mr Asko Schrey, SOM managing director, said the agreement with OM would enhance the Finnish market and improve liquidity. "A significantly wider membership will now have the opportunity to trade Finnish instruments," he said.

OM, which averages 160,000 trades a day on its exchanges in Stockholm and London, owns a 26 per cent share of SOM. The Helsinki-based bourse carries around 10,000 trades a day and is controlled by Merita, Finland's largest bank.

The trading link is due to open in the second half of 1997 and will cover Finnish and Swedish equity and fixed income derivatives. It follows the establishment in mid-1995 by OM and SOM of a clearing link for interest rate derivatives. OM said its London Securities & Derivatives Exchange would be included in the trading link. Trades and clearing would be conducted via Stockholm.

Greg McIvor, Stockholm

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	94.4050	+0.270	7.55	7.53	8.21
Austria		6.250	05/06	101.1700	-0.130	5.98	5.98	6.37
Belgium		7.000	05/06	106.2700	-0.130	6.11	6.12	6.64
Canada *		7.000	12/06	0.0000	-	0.00	6.77	7.50
Denmark		8.000	03/06	107.6200	-0.180	6.87	6.80	7.35
France	BTAN	5.500	10/01	102.1950	-0.050	5.00	5.02	5.61
	OAT	6.500	10/06	103.7300	-0.220	6.00	6.02	6.44
Germany Bund		*6.250*	*04/06*	*101.4800*	*-0.040*	*6.04*	*6.03*	*6.40*
Ireland		8.000	08/06	107.7500	-	6.89	6.89	7.64
Italy		9.500	02/06	108.3300	-0.670	8.20†	8.15	9.38
Japan	No 140	6.600	06/01	121.5318	-0.190	1.66	1.66	1.87
	No 182	3.000	09/05	101.4677	-0.220	2.80	2.75	2.98
Netherlands		8.500	06/06	118.2400	-0.010	5.95	5.94	6.33
Portugal		9.500	02/06	111.9800	-0.610	7.65	7.68	8.62
Spain		8.800	04/06	106.7500	-0.180	7.75	7.75	8.86
Sweden		6.000	02/05	92.8555	-0.120	7.16	7.22	8.17
UK Gilts		8.000	12/00	104-11	-	6.77	6.73	7.09
		7.500	12/06	100-07	+1/32	7.47	7.41	7.92
		9.000	10/08	110-31	+1/32	7.59	7.55	8.04
US Treasury *		6.500	10/06	0-00	-	0.00	6.48	6.93
		6.750	08/26	0-00	-	0.00	6.78	7.10
ECU (French Govt)		7.000	04/06	104.4800	-0.260	6.35	6.32	6.82

London closing, *US and Canada closed. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal *Source: MMS International*

US INTEREST RATES

Close (Oct 11)

		Treasury Bills and Bond Yields			
		One month	-	Two year	5.93
Prime rate	8¼	Two month	-	Three year	6.09
Broker loan rate	7	Three month	5.14	Five year	6.30
Fed.funds	5 3/16	Six month	5.30	10-year	6.56
Fed.funds at intervention	-	One year	5.58	30-year	6.85

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	126.16	125.94	-0.26	126.18	125.76	109,906	183,906
Mar	126.18	125.94	-0.26	126.18	125.80	1,749	34,380
Jun	125.08	124.84	-0.26	125.08	124.86	16	4,383

■ LONG TERM FRENCH BOND OPTIONS (MATIF) (Oct 9)

Strike Price	CALLS Nov	CALLS Dec	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Mar
122	-	-	-	-	-	-
123	-	3.00	-	-	0.10	0.56
124	2.00	2.12	-	0.06	0.24	-
125	1.11	0.77	-	0.20	0.47	1.09
126	0.42	0.37	1.41	0.50	0.86	1.50

Est. vol. total, Calls 26,994 Puts 17,134. Previous day's open int., Calls 182,982 Puts 182,291.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.18	99.31	+0.04	99.34	99.10	70367	248197
Mar	98.29	98.32	+0.04	98.29	98.22	269	9409

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Jan	PUTS Mar
9900	0.49	0.83	0.56	0.89	0.18	0.52	1.24	1.57
9950	0.22	0.56	0.39	0.71	0.41	0.75	1.57	1.89
10000	0.08	0.35	0.26	0.55	0.77	1.04	1.94	2.23

Est. vol. total, Calls 8632 Puts 7249. Previous day's open int., Calls 217542 Puts 212550

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	123.25	122.98	-0.30	123.35	122.79	30036	82054
Mar	122.30	122.23	-0.29	122.35	122.10	364	1667

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Dec	CALLS Mar	PUTS Dec	PUTS Mar
12250	1.58	2.09	1.10	2.36
12300	1.29	1.86	1.31	2.63
12350	1.03	1.66	1.55	2.93

Est. vol. total, Calls 1654 Puts 2651. Previous day's open int., Calls 159076 Puts 149702

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	107.17	107.34	+0.04	107.38	106.93	74,316	74,821

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	110-06	110-14	+0-04	110-15	110-01	22295	161163
Mar	-	109-18	+0-04	-	-	0	2128

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Jan	PUTS Mar
110	0-50	1-17	1-05	1-40	0-22	0-53	1-33	2-04
111	0-19	0-48	0-44	1-12	0-55	1-20	2-08	2-40
112	0-06	0-26	0-26	0-54	1-42	1-62	2-54	3-18

Est. vol. total, Calls 1731 Puts 1136. Previous day's open int., Calls 39636 Puts 32047

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	94.20	93.98	-0.22	94.20	93.88	1,129	7,520
Mar	-	93.44	-	-	-	-	-

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100% (Oct 11)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	110-01	110-19	+0-18	110-25	109-28	317,168	378,576
Mar	109-18	110-04	+0-18	110-10	109-14	1,207	25,616
Jun	109-20	109-20	+0-18	109-20	109-16	572	6,212

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	122.85	-	-	122.85	122.85	966	n/c
Mar	121.94	-	-	121.94	121.94	52	n/c

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Mon Oct 14	Day's change %	Fri Oct 11	Accrued interest	xd adj. ytd		Low coupon yield Oct 14	Oct 11	Yr. ago	Medium coupon yield Oct 14	Oct 11	Yr. ago	High coupon yield Oct 14	Oct 11	Yr. ago
1 Up to 5 years (22)	122.06	0.00	122.06	2.36	7.89	5 yrs	6.88	6.89	7.66	6.96	6.95	7.66	7.03	7.03	7.78
2 5-15 years (19)	151.24	0.01	151.23	3.09	8.27	15 yrs	7.72	7.72	8.24	7.72	7.72	8.27	7.76	7.76	8.35
3 Over 15 years (8)	167.15	0.04	167.08	3.14	9.83	20 yrs	7.84	7.84	8.29	7.82	7.82	8.32	7.85	7.85	8.38
4 Irredeemables (6)	193.35	-0.03	193.41	3.99	8.83	Irred.†	7.89	7.88	8.35						
5 All stocks (55)	145.06	0.01	145.04	2.87	8.49										

Index-linked							Inflation 5% Oct 14	Oct 11	Yr. ago	Inflation 10% Oct 14	Oct 11	Yr. ago
6 Up to 5 years (2)	203.60	0.23	203.12	1.09	4.43	Up to 5 yrs	3.04	3.09	3.26	2.33	2.38	2.10
7 Over 5 years (10)	195.04	0.24	194.58	1.16	4.17	Over 5 yrs	3.51	3.53	3.75	3.30	3.31	3.53
8 All stocks (12)	194.88	0.24	194.43	1.15	4.12							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Oct 14	Oct 11	Oct 10	Oct 9	Oct 8	Yr ago	High*	Low*
Govt. Secs. (UK)	94.72	94.73	94.71	95.10	94.90	92.93	96.34	91.59
Fixed interest	116.24	116.28	116.22	116.45	116.27	111.27	116.45	110.74

Gilt Edged Activity Indices

	Oct 11	Oct 10	Oct 9	Oct 8	Oct 7
Gilt Edged bargains	107.9	104.9	92.9	114.9	87.9
5-day average	101.7	99.8	106.4	106.9	102.8

 * for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on October 14

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS

FLOATING RATE NOTES

CONVERTIBLE BONDS

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts (Lives up to Five Years)							
Conversion 10pc 1996		9.97	5.84	100 5/16	-1/16	103 13/32	100 5/16
Treas 13¼pc 1997‡‡		13.00	5.74	101 29/32	-1/32	107 13/32	100½
Exch 10½pc 1997		10.34	5.78	101 19/32	-1/32	107 1/16	101 19/32
Treas Cnv 7pc 1997‡‡		6.94	5.94	100 27/32	-1/32	101 15/32	100 1/16
Treas 8½pc 2005‡‡		7.94	7.41	107 1/16	—	108 23/32	101 13/32
Treas 7½pc 2006‡‡		7.48	7.45	100¼	+1/32	101 19/32	94 23/32
Treas 7¾pc 2006‡‡		7.62	7.49	101¾	+1/32	103¼	96 3/16
Treas 8pc 2002-6‡‡		7.76	7.31	103⅛	-1/32	104 11/16	97⅝
Index-Linked 4⅝pc '98‡‡ (135.6)		0.17	2.08	114¼	+1/16	114¼	111 1/16
2½pc '01 (78.3)		2.50	3.11	185½	+1/32	185½	175⅝
2½pc '03 (78.8)		2.78	3.25	181 1/16	+1/32	181 1/16	171⅛
4⅝pc '04‡‡ (135.6)		2.89	3.30	118 3/16	+1/16	118 3/16	112 3/32
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

"Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. [illegible]

CURRENCIES AND MONEY

Finnish Markka stable on ERM debut

MARKETS REPORT

By Simon Kuper

The Finnish markka closed almost unchanged at DM0.9850 yesterday after its entry into Europe's exchange rate mechanism on Saturday.

The markka's announced central rate against the D-Mark of DM3.04 was weaker than most currency analysts expected and its entry date was earlier than anticipated.

Sterling gained one fifth of a pfennig and two fifths of a cent to close at DM2.4155 and $1.5795.

Most analysts expect the pound to break the DM2.45 barrier soon, as US funds begin to believe that the present pick-up in UK economic growth is durable and an interest rate hike likely.

The dollar was very thinly traded because of the Columbus Day holiday in the US. It closed fractionally down at DM1.5293 and Y111.630.

■ From yesterday, the markka was allowed to fluctuate within 15 per cent of its central rate, but the Finnish central bank is expected to target an unofficial band of 2.25 per cent. That implies that the bank would intervene to prop up the currency if it fell below DM2.97. But with Finnish economic fundamentals strong, the markka is expected to trade in the upper half of its range.

■ Finland's entry into the ERM raised the question of when the Italian lira and the Swedish crown are likely to join.

Together with sterling and the Greek drachma the two currencies are now the only European Union members outside the ERM. With two years of ERM membership necessary before a currency can join European monetary union, the Swedes and Italians are expected to join before the end of the year.

However, Mr Erik Asbrink, Swedish finance minister, insisted yesterday that Finland's entry put no pressure on Sweden to follow suit. Domestic politics make any early move difficult, analysts said.

The lira is another matter – there have been rumours for several weeks that it is about to join the ERM. Mr Robin Aspinall, chief economist at National Australia Bank, said Italy wants to join at a central rate to the D-Mark of about L1,020, weaker than yesterday's L995.9.

But France in particular wants Italy to join at a higher rate, probably about L950, to prevent Italian exports from gaining a competitive advantage. "They're haggling about what the central lira rate will be when Italy joins," Mr Aspinall said.

Mr Jean Arthuis, the French finance minister, said after an EU finance ministers meeting yesterday: "To be hasty on the re-entry (of the lira) would mean to take a risk ... which would cause harm to the Italian and European monetary authorities."

Other EU officials said finance ministers might even hold a special meeting to return the lira to the ERM, from which it was ejected with sterling in September 1992. The other ERM members are expected to bar Italy until its budget passes parliament, which is unlikely to happen before December.

■ Sterling continued its rise yesterday despite higher than expected headline UK producer price data.

Most analysts expect the pound to improve on its gains over the next few weeks as interest rates are expected to start rising and the market remains uncertain whether European monetary union will succeed. "There is a feeling that the pound is the high-yielding version of the Swiss franc," said Mr Paul Chertkow, analyst at UBS in London. "The pound is the greatest potential mover in the next four weeks."

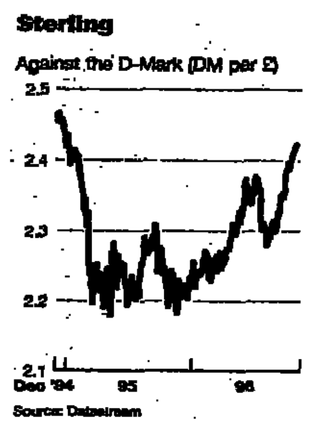
Mr Aspinall said the DM2.50 level could be breached by the end of the year.

Mr Chris Turner, analyst at BZW in London, said: "Most of the way it has been D-Mark weakness rather than sterling strength. But in recent weeks we have been seeing sterling strong on the back of interest rate expectations."

But he said there may be little extra buying of sterling to come. Mr Nick Shamim, analyst at Technical Data in London, said the currency's rate against the D-Mark "has been capped at 2.42 under intense selling pressure from a US brokerage house".

Sterling

Against the D-Mark (DM per £)



Source: Datastream

■ Pound in New York

Oct 14	—Latest—	— Prev. close —
£ spot	1.5805	1.5760
1 mth	1.5798	1.5753
3 mth	1.5789	1.5744
1 yr	1.5737	1.5693

■ OTHER CURRENCIES

Oct 14	£	$
Czech Rp	42.7798 - 42.8385	27.0830 - 27.1130
Hungary	245.250 - 245.485	155.320 - 155.370
Iran	4740.00 - 4727.00	3000.00 - 3008.00
Kuwait	0.4732 - 0.4743	0.2997 - 0.3002
Poland	4.4419 - 4.4479	2.8131 - 2.8151
Russia	8581.87 - 8589.86	5435.00 - 5438.00
U.A.E.	5.7990 - 5.8035	3.6725 - 3.6731

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POUND SPOT FORWARD AGAINST THE POUND

Oct 14		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.9932	+0.0217	823 - 041	17.0261	16.9772	16.9497	3.1	16.8932	2.4	-	-	104.6
Belgium	(BFr)	49.7622	+0.0614	385 - 858	49.8850	49.7385	49.6422	2.9	49.4172	2.8	48.3972	2.7	106.0
Denmark	(DKr)	9.2603	+0.0161	558 - 648	9.2782	9.2558	9.243	2.2	9.2114	2.1	9.0732	2.0	107.2
Finland	(FM)	7.2165	+0.0067	083 - 247	7.2730	7.1980	-	-	-	-	-	-	85.0
France	(FFr)	8.1758	+0.0125	729 - 787	8.1947	8.1729	8.1596	2.4	8.1289	2.3	7.9912	2.3	105.4
Germany	(DM)	2.4155	+0.0029	140 - 169	2.4209	2.4134	2.41	2.7	2.3988	2.8	2.3489	2.8	107.7
Greece	(Dr)	378.140	+0.099	902 - 378	381.355	377.833	-	-	-	-	-	-	67.8
Ireland	(I£)	0.9816	+0.0017	809 - 822	0.9826	0.9801	0.9814	0.2	0.9811	0.2	0.9783	0.3	100.1
Italy	(L)	2405.04	+5.64	371 - 637	2408.11	2398.23	2410.09	-2.5	2418.64	-2.3	2440.04	-1.5	77.3
Luxembourg	(LFr)	49.7622	+0.0614	385 - 858	49.8850	49.7385	49.6422	2.9	49.4172	2.8	48.3972	2.7	106.0
Netherlands	(Fl)	2.7107	+0.0047	093 - 116	2.7224	2.7060	2.703	3.1	2.6897	3.0	2.6311	2.9	105.1
Norway	(NKr)	10.2595	+0.0014	487 - 583	10.3288	10.2001	10.2435	1.2	10.2293	0.8	10.16	0.9	99.5
Portugal	(Es)	244.270	+0.256	113 - 426	244.971	244.113	244.515	-1.2	244.895	-1.0	-	-	95.8
Spain	(Pta)	203.132	+0.257	044 - 220	203.504	203.044	203.302	-1.0	203.667	-1.1	204.382	-0.6	80.1
Sweden	(SKr)	10.4035	+0.0089	942 - 127	10.4582	10.3726	10.4027	0.1	10.4006	0.1	10.3822	0.1	90.8
Switzerland	(SFr)	1.9791	+0.0021	779 - 802	1.9821	1.9779	1.9716	4.5	1.9578	4.3	1.8987	4.2	110.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	88.0
Ecu	-	1.2597	+0.0012	589 - 604	1.2626	1.2588	1.2579	1.8	1.2544	1.7	1.2387	1.8	-
SDR†	-	1.094210	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5793	+0.0048	787 - 798	1.5814	1.5769	-	-	-	-	-	-	-
Brazil	(R$)	1.6163	+0.0013	177 - 189	1.6200	1.6162	-	-	-	-	-	-	-
Canada	(C$)	2.1356	+0.0041	345 - 366	2.1384	2.1330	2.132	2.1	2.1248	2.0	2.0986	1.7	85.3
Mexico	(New Peso)	12.1377	+0.1284	267 - 486	12.1486	12.1005	-	-	-	-	-	-	-
USA	($)	1.5795	+0.0042	790 - 800	1.5825	1.5779	1.5788	0.5	1.578	0.4	1.5738	0.4	97.4
Pacific/Middle East/Africa													
Australia	(A$)	1.9957	+0.004	944 - 970	2.0014	1.9944	1.9973	-1.0	1.9997	-0.8	2.0056	-0.5	93.9
Hong Kong	(HK$)	12.2127	+0.0317	080 - 174	12.2354	12.2008	12.2086	0.4	12.2057	0.2	12.2187	0.0	-
India	(Rs)	56.5250	+0.1654	077 - 323	56.6240	56.2677	-	-	-	-	-	-	-
Israel	(Shk)	5.0386	+0.0104	329 - 442	5.0488	5.0329	-	-	-	-	-	-	-
Japan	(Y)	176.320	+0.461	216 - 423	176.760	176.110	175.47	5.8	173.88	5.6	167.075	5.2	130.7
Malaysia	(M$)	3.9588	+0.0083	546 - 578	3.9618	3.9516	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2595	+0.0109	580 - 610	2.2649	2.2512	2.2673	-4.1	2.2812	-3.8	2.3197	-2.7	110.5
Philippines	(Peso)	41.4610	+0.0787	214 - 224	41.5224	41.4014	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9239	+0.0157	219 - 259	5.9345	5.9162	-	-	-	-	-	-	-
Singapore	(S$)	2.2265	+0.0069	250 - 280	2.2302	2.2246	-	-	-	-	-	-	-
South Africa	(R)	7.1694	+0.0112	681 - 756	7.1885	7.1650	-	-	-	-	-	-	-
South Korea	(Won)	1310.67	+4.67	010 - 124	1313.00	1309.45	-	-	-	-	-	-	-
Taiwan	(T$)	43.4102	+0.1209	957 - 247	43.4887	42.9824	-	-	-	-	-	-	-
Thailand	(Bt)	40.2141	+0.1148	856 - 426	40.2860	40.0080	-	-	-	-	-	-	-

† Rates for Oct 11. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 14		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.7586	-0.0149	551 - 621	10.7740	10.7500	10.7538	2.2	10.6986	2.2	10.5036	2.4	104.4
Belgium	(BFr)	31.5050	-0.045	000 - 100	31.5500	31.4970	31.44	2.5	31.3075	2.5	30.6875	2.6	105.7
Denmark	(DKr)	5.8628	-0.0006	618 - 638	5.8705	5.8605	5.8539	1.8	5.8355	1.9	5.7638	1.9	106.6
Finland	(FM)	4.5689	-0.0079	651 - 726	4.6018	4.5569	4.5601	2.3	4.5414	2.4	4.4589	2.4	84.4
France	(FFr)	5.1765	-0.0059	760 - 770	5.1875	5.1741	5.1677	2.0	5.1497	2.1	5.0675	2.1	108.0
Germany	(DM)	1.5293	-0.0022	288 - 297	1.5316	1.5280	1.5263	2.4	1.5197	2.5	1.4895	2.6	107.1
Greece	(Dr)	239.405	-0.575	330 - 480	241.410	239.150	240.96	-7.8	243.53	-6.9	254.555	-6.3	67.3
Ireland	(I£)	1.6092	+0.0016	087 - 097	1.6115	1.6072	1.6089	0.2	1.6086	0.1	1.6054	0.2	-
Italy	(L)	1522.68	-0.48	230 - 302	1525.00	1518.25	1526.46	-3.0	1532.41	-2.6	1547.91	-1.7	77.2
Luxembourg	(LFr)	31.5050	-0.045	000 - 100	31.5500	31.4970	31.44	2.5	31.3075	2.5	30.6875	2.6	105.7
Netherlands	(Fl)	1.7157	-0.0016	152 - 162	1.7240	1.7145	1.7119	2.7	1.7039	2.8	1.6683	2.8	105.7
Norway	(NKr)	6.4916	-0.0184	906 - 926	6.5405	6.4570	6.4878	0.7	6.4822	0.5	6.4566	0.5	97.7
Portugal	(Es)	154.650	-0.25	600 - 700	154.890	154.570	154.855	-1.6	155.15	-1.3	156.925	-0.8	95.9
Spain	(Pta)	128.605	-0.18	590 - 620	128.850	128.560	128.785	-1.7	129.045	-1.4	129.71	-0.9	79.8
Sweden	(SKr)	6.5866	-0.0119	828 - 903	6.6174	6.5620	6.5838	0.5	6.5739	0.8	6.5266	0.8	90.3
Switzerland	(SFr)	1.2530	-0.002	526 - 533	1.2547	1.2520	1.2486	4.2	1.2402	4.1	1.2025	4.0	110.3
UK	(£)	1.5795	+0.0042	790 - 800	1.5825	1.5779	1.5788	0.5	1.578	0.4	1.5738	0.4	87.4
Ecu	-	1.2540	+0.0023	536 - 543	1.2548	1.2512	1.2553	-1.3	1.2585	-1.4	1.2751	-1.7	-
SDR†	-	0.69440	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0004	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0246	-0.0019	245 - 246	1.0250	1.0239	-	-	-	-	-	-	-
Canada	(C$)	1.3521	-0.001	518 - 523	1.3525	1.3515	1.3503	1.6	1.3462	1.7	1.3316	1.5	84.5
Mexico	(New Peso)	7.6845	+0.081	800 - 890	7.6970	7.6800	7.8025	-18.4	8.069	-20.0	8.8295	-15.2	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.2
Pacific/Middle East/Africa													
Australia	(A$)	1.2635	-0.0008	631 - 639	1.2640	1.2631	1.265	-1.4	1.2669	-1.1	1.2724	-0.7	95.4
Hong Kong	(HK$)	7.7320	-0.0005	315 - 325	7.7325	7.7300	7.7319	0.0	7.7325	0.0	7.7435	-0.1	-
India	(Rs)	35.8800	-0.01	350 - 850	35.8850	35.8250	35.875	-7.2	35.335	-7.6	-	-	-
Israel	(Shk)	3.1900	-0.0019	874 - 925	3.1980	3.184	-	-	-	-	-	-	-
Japan	(Y)	111.630	-0.005	600 - 660	111.900	111.530	111.125	5.4	110.13	5.4	105.915	5.1	131.2
Malaysia	(M$)	2.5048	-0.0007	045 - 050	2.5055	2.5034	2.5076	-1.4	2.513	-1.3	2.5343	-1.2	-
New Zealand	(NZ$)	1.4305	-0.0107	300 - 310	1.4310	1.4280	1.4335	-2.6	1.4403	-2.7	1.4718	-2.9	-
Philippines	(Peso)	26.2500	-0.02	200 - 800	26.2800	26.2200	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	504 - 506	3.7506	3.7505	3.7508	-0.1	3.7512	-0.1	3.7531	-0.1	-
Singapore	(S$)	1.4096	+0.0008	091 - 101	1.4101	1.4088	1.4074	1.8	1.4028	1.9	1.3816	2.0	-
South Africa	(R)	4.5390	-0.005	365 - 415	4.5495	4.5365	4.5797	-10.8	4.6547	-10.2	4.9695	-9.5	-
South Korea	(Won)	829.800	+0.75	700 - 900	829.900	829.700	-	-	-	-	-	-	-
Taiwan	(T$)	27.4835	+0.0035	830 - 840	27.4850	27.2000	27.4836	0.0	27.4839	0.0	-	-	-
Thailand	(Bt)	25.4600	+0.005	500 - 700	25.4700	25.3230	25.55	-4.2	25.7175	-4.0	26.355	-3.5	-

† SDR rate per $ for Oct 11. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 11: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

October 14	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3	3 1/32	3 3/32	3 1/8	3 7/32	6.00	2.50	-
week ago	3 1/32	3 1/32	3 1/16	3 3/32	3 5/32	6.00	2.50	-
France	3 3/16	3 3/16	3 3/16	3 11/32	3 9/16	3.35	-	4.75
week ago	3 3/16	3 3/16	3 3/16	3 5/16	3 19/32	3.35	-	4.75
Germany	3	3 1/16	3 1/8	3 1/8	3 3/16	4.50	2.50	3.00
week ago	3 3/32	3 1/16	3	3	3 1/8	4.50	2.50	3.00
Ireland	5 1/2	5 9/16	5 11/16	5 3/4	5 3/4	-	-	6.25
week ago	5 9/16	5 9/16	5 11/16	5 23/32	5 11/16	-	-	6.25
Italy	8 3/32	8 1/4	8 1/32	7 3/4	7 7/16	-	8.25	8.38
week ago	8 1/4	8 1/4	7 31/32	7 13/16	7 17/32	-	8.25	8.38
Netherlands	3 1/32	2 7/8	2 29/32	2 7/8	3 1/32	-	3.00	3.30
week ago	2 31/32	2 7/8	2 7/8	2 7/8	3	-	3.00	3.30
Switzerland	1 13/32	1 1/2	1 15/32	1 9/16	1 19/32	-	1.00	-
week ago	1 3/16	1 1/2	1 15/32	1 1/2	1 19/32	-	1.00	-
US	5 1/8	5 3/8	5 1/2	5 5/8	6	-	5.00	-
week ago	5 3/8	5 3/8	5 1/2	5 1/2	5 3/4	-	5.00	-
Japan	7/16	7/16	1/2	9/16	5/8	-	0.50	-
week ago	7/16	7/16	7/16	7/16	17/32	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5 3/8	5 1/2	5 23/32	5 7/8	-	-	-
week ago	-	5 3/8	5 15/32	5 5/8	5 13/16	-	-	-
US Dollar CDs	-	5.11	5.18	5.27	5.50	-	-	-
week ago	-	5.11	5.16	5.22	5.37	-	-	-
ECU Linked Ds	-	4 1/8	4 1/8	4 1/8	4 1/32	-	-	-
week ago	-	4 1/8	4 3/32	4 3/32	4 3/32	-	-	-
SDR Linked Ds	-	3 1/32	3 1/32	3 1/32	3 5/32	-	-	-
week ago	-	3 1/32	3 1/16	3 1/8	3 5/32	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Oct 14	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3 1/32 - 2 31/32	3 1/8 - 2 31/32	3 3/32 - 2 31/32	3 1/8 - 3	3 5/32 - 3 1/16	3 5/16 - 3 3/16
Danish Krone	3 13/32 - 3 5/16	3 3/8 - 3 15/32	3 5/8 - 3 1/2	3 3/4 - 3 5/8	3 7/8 - 3 25/32	3 31/32 - 3 3/4
D-Mark	3 1/8 - 2 7/8	3 1/16 - 2 15/16	3 1/8 - 3	3 3/16 - 3 1/16	3 3/16 - 3 1/16	3 1/4 - 3 1/8
Dutch Guilder	3 1/8 - 3	2 15/16 - 2 13/16	2 15/16 - 2 3/4	2 7/8 - 2 25/32	2 7/8 - 2 25/32	3 1/32 - 2 31/32
French Franc	3 1/2 - 3 3/8	3 15/32 - 3 11/32	3 1/2 - 3 3/8	3 17/32 - 3 13/32	3 9/16 - 3 7/16	3 13/16 - 3 17/32
Portuguese Esc.	7 3/32 - 7 1/16	7 3/32 - 7 1/32	7 1/32 - 6 31/32	6 15/16 - 6 25/32	6 27/32 - 6 3/4	6 13/16 - 6 11/16
Spanish Peseta	6 29/32 - 6 7/8	6 15/16 - 6 27/32	6 15/16 - 6 13/16	6 13/16 - 6 11/16	6 21/32 - 6 17/32	6 5/8 - 6 1/2
Sterling	5 3/4 - 5 11/16	5 13/16 - 5 11/16	5 31/32 - 5 29/32	5 15/16 - 5 7/8	6 1/32 - 5 31/32	6 3/32 - 6 1/4
Swiss Franc	1 5/8 - 1 1/2	1 9/16 - 1 7/16	1 9/16 - 1 7/16	1 5/8 - 1 1/2	1 5/8 - 1 1/2	1 11/16 - 1 9/16
Can. Dollar	3 3/4 - 3 5/16	3 5/8 - 3 7/16	3 9/16 - 3 7/16	3 9/16 - 3 7/16	3 5/8 - 3 1/2	3 7/8 - 3 3/4
US Dollar	5 7/16 - 5 5/16	5 3/8 - 5 1/4	5 7/16 - 5 5/16	5 17/32 - 5 13/32	5 23/32 - 5 19/32	5 15/16 - 5 13/16
Italian Lira	8 3/4 - 7 7/8	8 5/16 - 8 3/16	8 1/4 - 8 5/32	8 3/32 - 7 31/32	7 27/32 - 7 3/4	7 15/16 - 7 13/16
Yen	1/2 - 3/8	7/16 - 1/2	3/8 - 15/32	7/16 - 5/16	15/32 - 3/8	5/8 - 1/2
Asian $Sing	3 5/16 - 3 1/16	3 1/4 - 3 1/8	3 1/4 - 3 1/8	3 5/16 - 3 3/16	3 5/16 - 3 3/16	3 1/2 - 3 3/8

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.36	96.24	-0.13	96.35	96.24	39,767	65,075
Mar	96.36	96.25	-0.12	96.36	96.25	13,987	44,860
Jun	96.36	96.25	-0.11	96.36	96.25	7,783	27,532

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.86	96.86	-	96.87	96.85	8793	213564
Mar	96.84	96.85	+0.01	96.85	96.83	12504	205275
Jun	96.74	96.75	-	96.75	96.72	13638	160974
Sep	96.59	96.58	-	96.59	96.55	8987	142175

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.35	92.36	-	92.37	92.31	8182	66314
Mar	92.91	92.90	-0.01	92.91	92.83	6917	44529
Jun	93.22	93.20	-0.03	93.24	93.15	2402	31542
Sep	93.32	93.33	-0.01	93.33	93.29	784	23776

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.36	98.39	+0.03	98.42	98.35	3302	38649
Mar	98.35	98.36	+0.02	98.37	98.34	1769	25388
Jun	98.22	98.23	+0.02	98.24	98.20	641	12835
Sep	98.00	98.00	+0.02	98.02	98.00	100	4375

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.40	99.40	-0.01	99.40	99.40	174	n/c
Mar	99.30	99.30	-0.02	99.31	99.30	223	n/c
Jun	99.15	99.15	-0.03	99.15	99.15	158	n/c

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.85	95.84	-0.03	95.85	95.83	346	8274
Mar	95.86	95.87	-0.03	95.87	95.86	155	4085
Jun	95.86	95.87	-0.03	95.88	95.86	134	2539
Sep	95.81	95.83	-0.02	95.83	95.81	40	2460

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 14		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.61	16.43	4.853	1.973	4833	5.446	20.60	491.0	408.2	20.90	3.977	2.010	4.295	3.173	354.3	2.530
Denmark	(DKr)	53.74	10	8.829	2.608	1.060	2597	2.927	11.07	263.8	219.3	11.23	2.137	1.080	2.308	1.705	190.4	1.360
France	(FFr)	60.86	11.33	10	2.954	1.201	2942	3.315	12.54	298.8	248.4	12.72	2.420	1.223	2.614	1.931	215.6	1.540
Germany	(DM)	20.60	3.834	3.386	1	0.407	995.9	1.122	4.244	101.2	84.10	4.306	0.819	0.414	0.885	0.654	73.00	0.521
Ireland	(I£)	50.67	9.430	8.326	2.459	1	2449	2.760	10.44	248.8	206.8	10.59	2.015	1.018	2.176	1.608	179.5	1.282
Italy	(L)	2.069	0.385	0.340	0.100	0.041	100.	0.113	0.426	10.16	8.445	0.432	0.082	0.042	0.089	0.066	7.331	0.052
Netherlands	(Fl)	18.36	3.417	3.017	0.891	0.362	887.5	1	3.782	90.15	74.94	3.838	0.730	0.369	0.789	0.583	65.06	0.465
Norway	(NKr)	48.55	9.034	7.977	2.356	0.958	2346	2.644	10	238.3	198.1	10.15	1.931	0.976	2.085	1.540	172.0	1.228
Portugal	(Es)	20.37	3.790	3.347	0.989	0.402	984.4	1.109	4.196	100.	83.14	4.257	0.810	0.409	0.875	0.646	72.17	0.515
Spain	(Pta)	24.50	4.559	4.026	1.189	0.484	1184	1.334	5.047	120.3	100.	5.121	0.974	0.492	1.052	0.777	86.80	0.620
Sweden	(SKr)	47.85	8.904	7.862	2.322	0.944	2313	2.606	9.856	234.9	195.3	10	1.903	0.962	2.055	1.518	169.5	1.211
Switzerland	(SFr)	25.14	4.679	4.131	1.220	0.496	1215	1.369	5.179	123.4	102.6	5.255	1	0.505	1.080	0.798	89.09	0.636
UK	(£)	49.76	9.260	8.176	2.415	0.982	2405	2.710	10.25	244.3	203.1	10.40	1.979	1	2.137	1.579	176.3	1.259
Canada	(C$)	23.28	4.333	3.826	1.130	0.460	1125	1.268	4.796	114.3	95.04	4.867	0.926	0.468	1	0.739	82.50	0.589
US	($)	31.51	5.864	5.178	1.529	0.622	1523	1.716	6.491	154.7	128.6	6.586	1.253	0.633	1.353	1	111.7	0.797
Japan	(Y)	28.22	5.252	4.638	1.370	0.557	1364	1.537	5.814	138.6	115.2	5.899	1.123	0.567	1.212	0.896	100.	0.714
Ecu		39.52	7.355	6.494	1.918	0.780	1910	2.153	8.141	194.0	161.3	8.261	1.572	0.794	1.697	1.254	140.0	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6581	0.6567	+0.0008	0.6587	0.6560	12,352	67,801
Mar	0.6605	0.6605	+0.0004	0.6605	0.6605	290	1,827
Jun	-	0.6645	+0.0002	0.6645	0.6645	184	2,271

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.9034	0.9040	+0.0001	0.9040	0.9033	12,341	72,715
Mar	-	0.9158	-	0.9167	0.9150	131	1,830
Jun	-	0.9315	-	-	-	14	213

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8029	0.8037	+0.0007	0.8037	0.8030	11,939	43,189
Mar	-	0.8109	-	0.8135	0.8098	38	1,805
Jun	-	0.8212	-	-	-	11	607

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5786	1.5790	+0.0042	1.5790	1.5766	17,575	50,542
Mar	1.5760	1.5780	+0.0022	1.5780	1.5760	42	107
Jun	-	1.5780	+0.0032	1.5740	-	4	2

UK INTEREST RATES

LONDON MONEY RATES

Oct 14	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5 3/4 - 4 1/2	5 13/16 - 5 5/8	5 7/8 - 5 3/4	6 - 5 7/8	6 1/8 - 6	6 3/8 - 6 1/4
Sterling CDs	-	-	5 13/16 - 5 3/4	5 7/8 - 5 13/16	5 31/32 - 5 29/32	6 1/8 - 6 1/8
Treasury Bills	-	-	5 11/16 - 5 5/8	5 3/4 - 5 1/2	-	-
Bank Bills	-	-	5 27/32 - 5 13/16	5 3/4 - 5 11/16	5 31/32 - 5 29/32	-
Local authority deps.	5 3/4 - 5 5/8	5 3/4 - 5 5/8	5 27/32 - 5 25/32	5 15/16 - 5 13/16	6 1/8 - 5 31/32	6 1/4 - 6 1/8
Discount Market deps	5 3/4 - 4 3/4	5 3/4 - 5 5/8	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Ave. tender rate of discount on Oct 4, 5.5138pc. ECGD fixed rate Stlg. Export Finance. Make up day Sep 30, 1996. Agreed rate for period Oct 26, 1996 to Nov 25, 1996, Schemes II & III 7.08pc. Reference rate for period Aug 31, 1996 to Sep 30, 1996, Schemes IV & V 5.849pc. Finance House Base Rate 6pc from Oct 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.95	93.97	-	93.97	93.94	9417	103949
Mar	93.77	93.80	+0.01	93.81	93.76	10170	88774
Jun	93.53	93.58	+0.03	93.58	93.53	5571	74299
Sep	93.30	93.34	+0.03	93.34	93.28	3215	47268
Dec	93.11	93.15	+0.03	93.15	93.09	1939	38436

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9375	0.25	0.22	0.22	0.03	0.17	0.39
9400	0.08	0.10	0.12	0.11	0.30	0.54
9425	0.01	0.04	0.06	0.29	0.49	0.73

Est. vol. total, Calls 1551 Puts 1600. Previous day's open int., Calls 119417 Puts 137285

EMS EUROPEAN CURRENCY UNIT RATES

Oct 14	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.792214	0.781379	+0.000274	-1.37	3.00	9
Portugal	195.792	194.339	-0.01	-0.74	2.35	5
Spain	162.493	161.646	-0.056	-0.52	2.12	4
Denmark	7.28580	7.28580	-0.08087	0.00	1.59	-0
Netherlands	2.15214	2.15641	+0.00122	0.20	1.38	-1
Belgium	39.3960	39.6045	+0.0087	0.53	1.05	-4
Austria	13.4383	13.5232	+0.003	0.63	0.95	-5
Germany	1.91007	1.92229	+0.00042	0.64	0.94	-8
France	6.40608	6.50791	+0.00425	1.59	0.00	-13
NON ERM MEMBERS						
Greece	292.867	300.935	-0.495	2.75	-1.13	-
Italy	2106.15	1912.49	-0.2	-9.19	11.88	-
UK	0.786652	0.795837	-0.001923	1.17	0.42	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Oct	Nov	Dec	PUTS Oct	Nov	Dec
1.540	3.37	3.38	3.48	-	-	0.28
1.550	2.38	2.51	2.64	-	0.08	0.45
1.560	1.42	1.69	1.95	-	0.35	0.67
1.570	0.43	1.02	1.33	-	0.60	1.09
1.580	0.06	0.54	0.85	0.45	1.17	1.62

Previous day's vol., Calls 5,656 Puts 5,658 . Prev. day's open int., Calls 8,032 Puts 121,875

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.31	94.35	-	94.36	94.35	122,562	489,416
Mar	94.19	94.28	-	94.29	94.26	149,355	376,371
Jun	94.03	94.12	-0.01	94.14	94.12	98,329	278,830

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.90	94.92	-	94.92	94.90	144	4,086
Mar	94.81	94.81	-	94.81	94.81	117	1,718
Jun	-	94.64	-	94.62	-	118	1,017

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Oct	Nov	Dec	Mar	PUTS Oct	Nov	Dec	Mar
9675	0.11	0.13	0.14	0.21	0	0.02	0.03	0.11
9700	0	0.01	0.03	0.08	0.14	0.15	0.17	0.23
9725	0	0	0	0.03	0.39	0.39	0.39	0.43

Est. vol. total, Calls 4656 Puts 2225. Previous day's open int., Calls 395991 Puts 294264

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9850	0.08	0.13	0.15	0.17	0.27	0.42
9875	0.02	0.05	0.06	0.38	0.44	0.58

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 4053 Puts 2050

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9225	0.25	0.75	1.07	0.14	0.10	0.12
9250	0.14	0.56	0.87	0.28	0.16	0.17
9275	0.06	0.39	0.69	0.45	0.24	0.24

Est. vol. total, Calls 3220 Puts 415. Previous day's open int., Calls 93389 Puts 51298

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Cyprus Popular Bank	5.75	NatWestminster	5.75
Allied Irish Bank (GB)	5.75	Duncan Lawrie	5.75	●Rea Brothers	5.75
Allied Trust Bank	5.75	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
●Henry Ansbacher	5.75	Financial & Gen Bank	7.00	●Singer & Friedlander	5.75
Bank of Baroda	5.75	●Robert Fleming & Co	5.75	●Smith & Williamson Secs	5.75
Banco Bilbao Vizcaya	5.75	Girobank	5.75	Scottish Widows Bank	5.75
Bank of Cyprus	5.75	●Guinness Mahon	5.75	TSB	5.75
Bank of Ireland	5.75	Habib Bank AG Zurich	5.75	United Bank of Kuwait	5.75
Bank of India	5.75	●Hambros Bank	5.75	Unity Trust Bank Plc	5.75
Bank of Scotland	5.75	Heritable & Gen Inv Bk	5.75	Western Trust	5.75
Barclays Bank	5.75	●Hill Samuel	5.75	Whiteaway Laidlaw	5.75
Brit Bk of Mid East	5.75	C. Hoare & Co	5.75	Yorkshire Bank	5.75
●Brown Shipley & Co Ltd	5.75	Hongkong & Shanghai	5.75		
Citibank NA	5.75	Julian Hodge Bank	5.75		
Clydesdale Bank	5.75	●Leopold Joseph & Sons	5.75		
The Co-operative Bank	5.75	Lloyds Bank	5.75		
Coutts & Co	5.75	Midland Bank	5.75		
Credit Lyonnais	5.75	*Mount Credit Corp	6.00		

● Members of London Investment Banking Association

* In administration

COMMODITIES AND AGRICULTURE

Sunny weather sends CBOT futures lower

By Laurie Morse in Chicago

Warm, sunny weather across much of the US grain belt *speeded the US harvest over* the weekend – and sent Chicago Board of Trade futures prices lower.

News of the harvest underscored a US Department of Agriculture report on Friday, which said that the US maize and soyabean crops would be larger than estimated earlier.

The report added that stocks of these feed-grains would begin to rise again this year after two seasons of draw-downs.

CBOT prices for soyabean *futures were down 30 cents a* bushel on Friday, with the sell-off stopped only by an exchange rule limiting further price declines.

Losses continued yesterday, but at a more relaxed pace. By midday, soyabeans for delivery after the harvest is complete in November had traded down to $6.87 per bushel, their lowest level this year, and well below the $8 soyabeans farmers had crowed over less than a month ago.

Mr Daniel Basse, a grain market analyst for the research firm AgResources, said the government data indicated that worldwide grain markets had entered a rebuilding stage, and two years of frenetic market activities linked to dwindling world grain supplies might be over.

"We've entered a multi-year stock rebuilding phase," he said.

The Department of Agriculture said that the US soyabean crop would have an average yield of 37 bush*els an acre, and that the* overall harvest would be the second largest on record, at 2.35bn bushels.

The latest estimate was 3 per cent higher than the department's forecast in September. By next August, the agency said, US stocks of soyabeans would expand to 195m bushels, up sharply from the 160m estimated last month.

At the same time, the Department of Agriculture has raised its estimate of maize production to 9.01bn *bushels – an increase of 2* per cent from its previous forecast, and 22 per cent higher than in 1995.

Ending stocks figures for maize ratcheted up to 903m bushels, 28 per cent higher than the government agency's estimate last month of 668m bushels.

Traders and analysts were startled by the upward revisions in government estimates, particularly in the stocks figures.

The production increases were a surprise because both crops were late being planted this year, a factor that usually dents yields and leads to gradually declining production forecasts as the season wears on.

The new data has left the market expecting more upward revisions. "A crop that gets bigger in October generally continues to get bigger in November," one trader noted.

Bumper harvest hits prices of wheat

A sharp fall this year has eased concern on stock levels, says **Deborah Hargreaves**

World wheat prices have tumbled from record levels earlier this year as news of bumper harvests around the world has stopped traders worrying about low stock levels.

Lower prices have prompted the European Commission to reverse its export tax on grains, which has been in place since last December, and even offer some subsidies for traders shipping wheat overseas. This has sparked a row with the US, which has threatened to reopen its own export subsidy programme.

The fall in stocks to their lowest levels for 20 years, along with continued high demand, pushed wheat futures at the Chicago Board of Trade to a peak of $7.20 a bushel in April. But the market has since dropped to as low as $4.12 a bushel.

"The long-term price trend is bearish, with world supplies up and no crop disasters," said Mr Dick Smetana, director of AgResource in Chicago.

Grain stocks are still low and unlikely to be stacked as high again as in recent years in spite of good harvests. Traders believe lower stocks will herald a period of quite sharp price moves for the next few years.

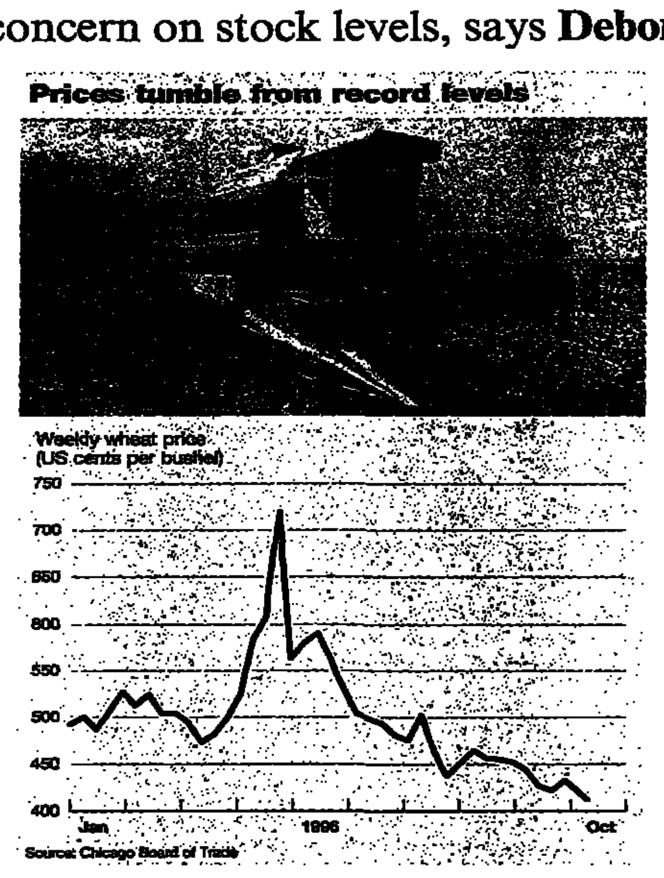
"The ratio of stocks to consumption is still very low and it will only take crop problems in one or two important producing countries to put us in the same position with rising prices again," said Mr Lawrence Eagles, commodities analyst at GNI, the London brokers.

In its latest report, the International Grains Council, the industry monitoring body, puts world wheat output at 571m tonnes for 1996–97, up 5 per cent from 542m tonnes in 1995–96. It estimates that stocks will rise this year to 104m tonnes from 94m tonnes, but cautions against expecting a replenishment of traditionally high stocks.

Stock-building will be relatively limited this year, the council says, "in contrast to the huge volume of carry-over stocks in the 1980s".

Moves to deregulate the wheat market – particularly in the US and to some extent in the European Union – are likely to keep government stocks low and leave farmers freer to respond to market signals.

"This means we will have to live with more volatile prices for wheat and an increased risk of facing supply shortages," said Mr Zsolt Papp, soft commodities analyst at UBS.



In the mid-1980s, stocks represented about 30 per cent of annual consumption. They have now fallen closer to 20 per cent and Mr Papp thinks stockpiles will have to be rebuilt closer to 25 per cent to offer more of a buffer zone for crop disasters.

Mr Papp thinks traders may push wheat prices higher again when the focus moves away from the good harvest figures to continuing low stock levels.

Demand from traditional grain buyers such as China and Russia, where harvests have not been huge, could lend some support to prices, according to Mr Richard Whitlock, director of UK traders Banks Agriculture.

"Consumption has remained remarkably resilient, even with high prices, and rising demand will underpin prices in the longer term," said Mr Eagles.

But most short-term forecasts see wheat in a downward trend towards the end of the year. The Canadian Wheat Board expects the price of top grade Canadian red wheat to be between C$217 to C$237 a tonne next year, down from C$254 (US$188) a tonne earlier this year.

Similarly, many traders and analysts are looking to a fall in the futures price to around $4 a bushel by the end of the year.

Against the grain, Technology Page

EU shifts policy on barley

By Alison Maitland

The amount of European Union barley sold or approved for export has nearly tripled in the past month as traders have taken advantage of a much increased EU cereal harvest.

The EU has shifted policy from an export tax on barley last year – designed to conserve the cereal for domestic use and prevent prices rising too high – back to export refunds.

This, combined with the increase in the cereal harvest to an estimated 194m tonnes, has revived exports compared with last year's minimal levels, a Commission official said yesterday. Industry estimates put the harvest at 203m tonnes.

Most of the barley being exported comes from the open market rather than intervention stocks, which had fallen to just 255,000 tonnes by October 6, the official said.

It has emerged from last week's EU cereals management committee meeting that 1.68m tonnes of barley were approved for export between the beginning of July and October 8.

COMMODITIES NEWS DIGEST

Brent Blend at post-Gulf war high

Oil prices in London hit yet another post-Gulf War high yesterday as last week's refined product-driven rally maintained its momentum. The price of the benchmark Brent Blend for November delivery reached $24.92 a barrel in late London trading, more than $1 above its close last Friday.

A price correction at the end of last week proved short-lived, as the crude oil market was boosted by reports that Iranian forces might have been involved in renewed fighting in northern Iraq. Traders also reported that good technical factors were supporting crude prices. Last week's price correction encountered "very good support lines", said one London trader last night.

There was also continuing strong demand for refined products in Europe and North America, where low inventories of middle distillates such as heating oil are worrying end-users, who have been scrambling in search of supplies in the run-up to the winter months. New European Union fuel specifications have also helped to boost diesel prices.

Robert Corzine

Albatros escapes fine

Breaches of contract by Albatros Warehousing earlier this year were serious enough to justify a substantial fine, but this is not being imposed, the London Metal Exchange said yesterday. An LME Warehouse Disciplinary Committee enquiry in May found that Albatros breached its contract by failing to maintain accurate records and properly issue LME warrants, as well as submitting incorrect stock returns on occasions.

"The Committee recognised, however, that the six-week suspension of the ability to issue LME warrants served by Albatros . . . and the consequent loss of business have in themselves been enough financial sanction," the LME said.

Reuter, London

Coal stable in Europe

Coal production and demand in Europe appear to have stabilised this year after five years of decline, according to the UN's Economic Commission for Europe.

However, the ECE says that the halt is only temporary because "drastic" falls in production and employment are planned by many governments over the next decade. Only countries of the former Soviet Union are likely to see rising demand and output as their economies recover from the deep slump of the past few years.

In its survey of the coal situation in the ECE region in 1995–96, the ECE says the process of restructuring is gaining momentum as governments try to cut or eliminate subsidies to the industry.

Since European coal is predominantly mined underground under difficult geological conditions, it is uncompetitive with coal from overseas – which is mostly open-cast. In western Europe coal costs at least three times as much to produce as the price of coal on the world market, the ECE notes. Germany plans to cut hard coal output from 60m tonnes to some 13m tonnes between 1996 and 2005, with a reduction in the workforce from 80,000 to 16,000.

Frances Williams, Geneva

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1294-95	1328-29
Previous	1304-5	1335-6
High/low	1294/1293.5	1338/1325
AM Official	1293-93.5	1328-28.5
Kerb close		1326-27
Open int.	221,483	
Total daily turnover	104,667	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1170-75	1195-200
Previous	1175-80	1205-10
High/low		1200/1195
AM Official	1180-82	1200-05
Kerb close		1200-05
Open int.	5,627	
Total daily turnover	2,215	

■ LEAD ($ per tonne)

Close	731-2	739-40
Previous	754-5	755-6
High/low	729/726	752/736
AM Official	728-9	736-6.5
Kerb close		738-9
Open int.	38,969	
Total daily turnover	13,495	

■ NICKEL ($ per tonne)

Close	7010-20	7125-30
Previous	7085-75	7175-80
High/low		7160/7115
AM Official	7020-25	7135-38
Kerb close		7115-20
Open int.	43,481	
Total daily turnover	13,495	

■ TIN ($ per tonne)

Close	5940-50	6000-10
Previous	6010-20	6065-70
High/low	5955	6050/5975
AM Official	5955-56	6011-15
Kerb close		5970-75
Open int.	15,657	
Total daily turnover	3,557	

■ ZINC, special high grade ($ per tonne)

Close	992.5-3.5	1018.5-19
Previous	1005.5-6.5	1030-1
High/low	990	1022/1015
AM Official	989-90	1015.5-16
Kerb close		1014-15
Open int.	73,259	
Total daily turnover	32,589	

■ COPPER, grade A ($ per tonne)

Close	1944-45	1937-38
Previous	1975.5-7.5	1961-2
High/low	1948/1946	1950/1930
AM Official	1947-48	1938-39
Kerb close		1933-34
Open int.	175,281	
Total daily turnover	71,070	

■ LME AM Official £/$ rate: 1.5788
LME Closing £/$ rate: 1.5800

Spot: 1.5810 3 mths: 1.5794 6 mths: 1.5777 9 mths: 1.5759

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	91.50	-1.65	92.40	91.40	460	3,698
Nov	90.70	-1.30	91.80	90.80	46	2,152
Dec	90.10	-1.40	91.75	90.00	6,237	24,824
Jan	89.70	-1.40	90.00	90.00	12	1,348
Feb	89.30	-1.40	89.80	89.00	4	933
Mar	88.80	-1.50	90.30	88.75	1,351	9,542
Total					na	na

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	381.30-381.60		
Opening	381.20-381.50		
Morning fix	381.05	241.10	477.76
Afternoon fix	380.90	241.03	476.93
Day's High	381.45-381.75		
Day's Low	380.80-381.10		
Previous close	380.90-381.20		

Loco Ldn Mean Gold Lending Rates (Vs US$)
1 month ....3.63 6 months 3.58
2 months ....3.61 12 months 3.67
3 months 3.56

Silver Fix	p/troy oz.	US cts equiv.
Spot	319.05	504.00
3 months	323.40	510.45
6 months	327.70	516.75
1 year	336.75	529.80

Gold Coins	$ price	£ equiv.
Krugerrand	386-389	244-246
Maple Leaf	386.10-388.60	
New Sovereign	86-90	54-57

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	381.5	+0.4	380.8	380.8	6	28
Dec	383.8	+0.4	384.1	382.7	16,797	109k
Feb	386.0	+0.4	385.9	385.4	1,478	16,079
Apr	388.2	+0.4	388.1	387.8	205	10,752
Jun	390.6	+0.4	-	-	754	11,058
Aug	393.1	+0.4	-	-	86	4,041
Total					na	na

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Oct	387.9	-0.2	-	-	7	183
Jan	389.6	-0.2	389.9	389.2	2,147	20,337
Apr	392.2	-0.3	392.8	391.5	49	7,384
Jul	395.2	-0.3	-	-	3	920
Oct	398.7	-0.3	-	-		27
Total					2,208	28,851

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	117.75	-1.25	118.00	117.50	327	7,743
Mar	118.75	-1.25	119.25	119.25	5	188
Jun	119.60	-1.25	-	-	-	115
Total					332	8,046

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Oct	499.7	-2.3	-	-	2	3
Dec	503.5	-2.3	506.0	501.0	13,690	65,180
Jan	505.7	-2.3	-	-	-	26
Mar	510.7	-2.3	513.5	509.0	431	10,235
May	515.4	-2.3	518.5	515.0	12	6,407
Jul	520.1	-2.3	-	-	45	5,000
Total					na	na

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	25.44	+0.78	25.58	24.75	31,093	57,780
Dec	25.06	+0.69	25.19	24.47	22,573	86,331
Jan	24.51	+0.58	24.57	24.10	8,022	50,034
Feb	23.86	+0.50	23.90	23.55	3,492	32,602
Mar	23.25	+0.42	23.28	22.95	2,449	18,855
Apr	22.71	+0.34	22.74	22.43	1,732	14,285
Total					78,251	422,247

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	24.59	+0.61	24.75	24.13	9,180	24,103
Dec	24.18	+0.70	24.27	23.70	10,608	68,618
Jan	23.54	+0.61	23.64	23.09	2,835	29,605
Feb	22.89	+0.64	22.89	22.47	1,363	19,888
Mar	22.10	+0.56	22.15	21.80	711	28,007
Apr	21.50	+0.56	21.50	21.15	820	7,684
Total					na	na

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	73.90	+2.47	73.85	71.80	13,503	40,327
Dec	73.40	+2.14	73.60	71.31	10,345	36,334
Jan	72.10	+1.94	72.20	70.90	3,719	24,377
Feb	69.55	+1.64	69.55	68.50	2,425	13,480
Mar	68.50	+1.69	66.50	65.35	851	8,327
Apr	62.40	+1.19	62.40	61.50	205	4,190
Total					31,578	143,952

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	233.75	+7.25	234.00	226.75	7,732	27,662
Dec	227.00	+7.00	227.25	223.50	4,582	19,962
Jan	219.75	+5.25	220.25	217.50	1,262	15,380
Feb	210.50	+4.75	210.75	209.00	539	4,041
Mar	201.00	+4.50	201.50	199.00	302	4,891
Apr	191.75	+4.25	192.25	190.00	121	4,344
Total					11,998	86,540

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	2.325	-0.022	2.339	2.275	11,729	28,000
Dec	2.515	-0.017	2.520	2.460	8,863	30,116
Jan	2.550	+0.002	2.555	2.490	4,168	19,714
Feb	2.430	+0.012	2.430	2.380	2,030	11,184
Mar	2.255	+0.012	2.260	2.210	983	7,468
Apr	2.070	-0.005	2.080	2.065	471	5,142
Total					29,746	146,023

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	67.60	+2.08	67.60	65.50	11,351	23,490
Dec	66.65	+1.87	66.65	65.20	5,792	17,656
Jan	65.25	+1.59	65.25	64.10	1,549	10,614
Feb	64.50	+1.39	64.65	63.80	186	3,444
Mar	64.35	+0.94	-	-	29	1,763
Apr	66.55	+1.09	-	-	161	2,511
Total					20,878	61,741

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	98.70	-0.90	99.75	97.80	254	1,362
Jan	100.70	-0.90	101.75	99.75	306	2,101
Mar	101.90	-0.90	102.95	101.00	161	1,577
May	103.80	-0.90	104.70	103.00	112	1,223
Jul	105.30	-0.90	106.20	105.00	54	145
Nov	98.50	-0.75	98.50	98.50	17	47
Total					904	6,454

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Dec	429.50	+5.00	430.00	421.75	12,265	42,238
Mar	415.00	+2.75	416.00	409.50	3,293	15,314
May	396.25	+2.75	397.00	391.00	254	1,673
Jul	377.75	+3.50	378.50	374.00	1,743	8,203
Sep	382.00	+4.00	382.00	379.00	22	219
Dec	388.00	+4.00	388.00	388.00	14	165
Total					17,577	67,886

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Dec	286.50	+2.75	287.75	282.25	45,840	163,637
Mar	293.00	+3.25	294.00	288.25	16,388	76,720
May	298.25	+3.25	298.75	293.50	6,260	35,045
Jul	302.00	+3.75	302.25	296.25	5,640	28,393
Sep	288.50	+2.50	288.50	284.50	188	3,015
Dec	284.25	+1.75	284.50	281.00	3,239	19,416
Total					77,446	326,882

■ BARLEY LIFFE (£ per tonne)

Nov	97.50	-2.50	100.00	97.50	57	799
Jan	99.00	-2.00	101.00	99.00	97	715
Mar	100.50	-2.00	-	-	-	198
May	102.25	-1.50	-	-	-	115
Sep	94.75	-0.75	-	-	-	1
Total					154	1,802

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Nov	688.50	-11.75	695.00	682.00	50,235	88,385
Jan	694.25	-12.75	702.00	689.50	16,879	35,778
Mar	701.25	-12	708.50	693.25	10,651	24,552
May	705.00	-10	710.50	700.50	3,611	14,398
Jul	707.25	-8.5	712.50	702.00	4,599	12,443
Aug	704.00	-5	710.00	701.00	250	487
Total					88,140	183,557

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Oct	22.62	+0.33	22.65	22.16	273	734
Dec	22.95	+0.34	23.03	22.36	17,211	50,952
Jan	23.27	+0.37	23.29	22.90	3,743	15,787
Mar	23.66	+0.37	23.75	23.18	3,725	16,483
May	23.96	+0.35	24.05	23.65	2,304	9,000
Jul	24.25	+0.30	24.45	24.00	602	3,247
Total					28,476	99,432

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Oct	235.1	-1.6	237.2	232.8	3,291	4,168
Dec	229.5	-4	233.5	227.8	20,957	45,951
Jan	227.0	-4	229.5	225.3	4,192	10,412
Mar	224.4	-4	227.5	222.0	4,968	14,889
May	221.6	-3.6	224.5	220.5	899	8,602
Jul	221.3	-2.9	224.0	219.5	1,320	4,032
Total					36,049	99,124

■ POTATOES LIFFE (£/tonne)

Nov	35.0	-	-	-	-	2
Mar	78.2	-	-	-	-	-
Apr	76.5	-0.3	77.0	75.0	70	1,368
May	87.5	-	-	-	-	17
Jun	96.0	-	-	-	-	-
Total					70	1,381

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Oct	1145	-1	1155	1150	19	1,111
Nov	1240	+5	1240	1240	20	637
Dec	1230	+5	1230	1230	5	132
Jan	1250	+4	1250	1250	10	1,564
Apr	1276	+8	1275	1275	5	539
Jul	1110	-	1110	1110	5	130
Total					64	4,131

	Close	Prev
BFI	1054	1063

FUTURES DATA
All futures data supplied by CMS.

Tea

There was improved demand this week reports the Tea Brokers Association. Landed Assams met a little more competition and prices for quality invoices appreciated but most others lost 2 to 5 pence/kg. Brighter East Africans were firm to dearer with mediums about steady. Plainer descriptions came to a dearer market and often advanced. Offshore Kenyas met more demand at fully firm rates while Zimbabwes tended easier. Quotations: Landed Best Available 200p/kg. Good 129p/kg. Good Medium 115p/kg. Medium 106p/kg. Low Medium 90p/kg. The highest price realised this week was 200p/kg for a North Indian

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	971	-10	979	970	1,278	30,747
Mar	997	-12	1009	996	1,097	40,125
May	1010	-11	1017	1010	29	18,259
Jul	1023	-10	1029	1028	43	11,499
Sep	1037	-12	1044	1040	50	3,997
Dec	1048	-11	-	-	-	3,795
Total					2,497	133,161

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1379	-18	1395	1378	7,189	28,142
Mar	1411	-16	1422	1410	3,422	21,808
May	1425	-18	1439	1425	2,940	8,902
Jul	1441	-17	1455	1440	30	6,347
Sep	1458	-15	1458	1458	159	5,693
Dec	1481	-15	1499	1499	6	774
Total					na	na

■ COCOA (ICCO) (SDR's/tonne)

Oct 11	Price	Prev. day
Daily	1041.18	1038.66

■ COFFEE LIFFE ($/tonne)

Nov	1522	+2	1534	1520	2,715	11,851
Jan	1458	-14	1479	1456	1,427	10,261
Mar	1420	-20	1446	1420	586	6,051
May	1400	-18	1425	1400	361	2,458
Jul	1400	-16	1427	1410	65	254
Sep	1397	-16	-	-	-	37
Total					5,154	30,299

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	115.10	-1.20	117.50	113.05	4,926	15,333
Mar	106.15	-1.50	108.10	104.00	1,444	7,284
May	105.10	-2.15	107.50	103.70	237	2,570
Jul	104.95	-2.05	107.60	103.90	58	798
Sep	104.90	-2.05	107.50	107.50	30	284
Dec	105.50	-2.50	-	-	-	313
Total					na	na

■ COFFEE (ICO) (US cents/pound)

Oct 11		Prev. day
Comp. daily	100.14	99.38
15 day average	98.46	96.03

■ WHITE SUGAR LIFFE ($/tonne)

Dec	322.2	+0.1	322.8	321.2	770	9,456
Mar	318.3	+0.2	318.8	317.0	1,231	11,383
May	318.8	+0.6	319.0	317.6	258	3,810
Aug	321.2	+1.2	321.5	320.0	33	1,665
Oct	313.0	+1.3	312.6	312.0	29	1,004
Dec	314.6	+1.5	315.0	315.0	1	268
Total					2,339	27,474

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Mar	10.86	+0.05	10.88	10.69	4,895	83,609
May	10.81	-	10.82	10.70	1,053	26,908
Jul	10.71	-	10.73	10.60	481	17,404
Oct	10.69	-0.01	10.71	10.60	483	10,671
Mar	10.63	-0.04	10.68	10.56	108	3,092
May	10.62	-0.01	10.65	10.65	2	480
Total					7,022	145,586

■ COTTON NYCE (50,000lbs; cents/lbs)

Dec	73.43	+0.23	73.78	73.16	14,502	27,998
Mar	74.55	+0.10	74.90	74.40	3,921	10,996
May	75.30	-0.05	75.45	75.15	1,788	6,985
Jul	76.03	+0.30	76.25	75.80	1,346	5,300
Oct	76.90	+0.30	76.90	76.30	20	1,047
Dec	76.40	+0.50	76.60	75.90	415	4,097
Total					na	na

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Nov	111.95	+0.70	112.20	111.30	938	6,612
Jan	104.00	+0.10	104.35	102.80	1,593	6,581
Mar	106.00	+0.25	106.50	105.25	270	2,993
May	107.70	+0.20	107.70	107.70	27	677
Jul	109.60	+0.50	-	-	2	520
Sep	111.50	+0.60	-	-	5	239
Total					na	na

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

Oct 14	Oct 11	month ago	year ago
1876.7	1889.8	1914.6	2100.7

■ CRB Futures (Base: 1967=100)

Oct 11	Oct 10	month ago	year ago
245.70	247.38	-	-

■ GSCI Spot (Base: 1970=100)

Oct 11	Oct 10	month ago	year ago
208.48	207.38	204.31	180.18

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	70.650	-0.700	71.350	70.600	1,923	11,659
Dec	64.625	-1.000	65.675	64.600	6,195	37,576
Feb	63.000	-0.750	63.800	62.900	1,602	18,405
Apr	65.075	-0.475	65.550	65.025	652	9,484
Jun	62.900	-0.375	63.300	62.900	348	4,629
Aug	62.650	-0.400	63.050	62.600	118	4,640
Total					11,248	88,670

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Oct	56.625	-1.500	57.950	56.625	1,189	3,097
Dec	54.250	-1.150	55.600	54.150	8,170	18,041
Feb	75.000	-1.375	76.550	74.700	1,244	6,996
Apr	71.525	-1.025	72.750	71.150	382	3,213
Jun	75.800	-0.600	76.600	75.000	318	3,149
Jul	73.300	-0.800	74.200	72.500	88	716
Total					11,428	36,090

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Feb	71.900	-2.700	74.150	71.800	2,082	5,395
Mar	72.000	-2.650	74.400	71.900	138	880
May	73.900	-3.000	75.200	73.900	63	311
Jul	74.475	-3.000	77.000	74.475	9	164
Aug	74.400	-1.600	-	74.400	1	28
Total					2,293	6,778

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Nov	Feb	Nov	Feb
1200	109	149	2	11
1300	33	79	26	38
1400	4	34	96	92
■ COPPER (Grade A) LME	**Nov**	**Feb**	**Nov**	**Feb**
1800	150	181	7	57
1900	75	124	31	98
2000	28	81	84	154
■ COFFEE LIFFE	**Nov**	**Jan**	**Nov**	**Jan**
1450	72	72	-	64
1500	29	51	7	93
1550	6	36	34	128
■ COCOA LIFFE	**Dec**	**Mar**	**Dec**	**Mar**
950	41	73	20	26
975	28	59	32	37
1000	18	46	47	49
■ BRENT CRUDE IPE	**Dec**	**Jan**	**Dec**	**Jan**
2400	-		-	-
2450	59	-	-	-
2500	42	75	-	-

LONDON SPOT MARKETS

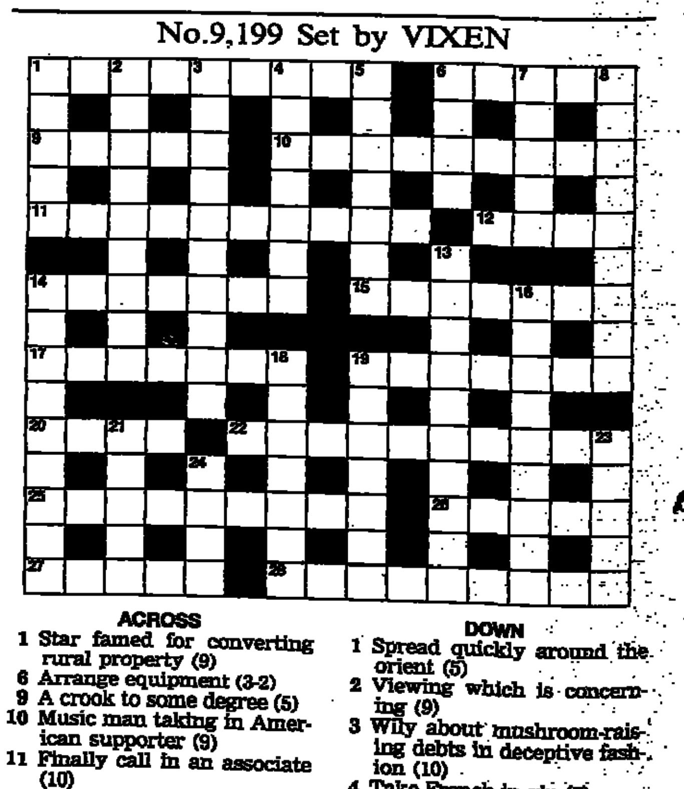
■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$22.65-2.75	+0.81
Brent Blend (dated)	$24.73-4.77	+0.905
Brent Blend (Nov)	$24.83-4.87	+0.955
W.T.I.	$25.55-5.57	+0.98
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$238-241	+10
Gas Oil	$237-239	+5
Heavy Fuel Oil	$123-125	-1
Naphtha	$230-232	+3
Jet fuel	$264-265	+10
Diesel	$268-270	+9
■ NATURAL GAS (Pence/therm)		
Bacton (Nov)	13.10-3.20	
Petroleum Argus. Tel. London (0171) 359 8792		
■ OTHER		
Gold (per troy oz)♣	$381.45	+0.40
Silver (per troy oz)♣	503.50c	+1.50
Platinum (per troy oz.)	$384.75	-1.75
Palladium (per troy oz.)	$116.50	-0.75
Copper	99.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.90r	-0.03
Tin (New York)	281.50	
Cattle (live weight)	96.83p	+0.56*
Sheep (live weight)	115.16p	-0.21*
Pigs (live weight)†	99.74p	-0.63*
Lon. day sugar (raw)	$273.00	-1.60
Lon. day sugar (wte)	$330.00	-1.50
Barley (Eng. feed)	105.50	
Maize (US No3 Yellow)	126.50	
Wheat (US Dark North)	Unq	
Rubber (Nov)♥	83.75p	
Rubber (Dec)♥	83.75p	
Rubber (KL RSS No1)	311.5v	
Coconut Oil (Phil)§	$735.0x	+5.0
Palm Oil (Malay.)§	530.0z	-7.5
Copra (Phil)§	$477.0x	
Soyabeans (US)	207.0	-7.0
Cotton Outlook'A' index	74.75	-1.00
Wooltops (64s Super)	405p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x Oct/Nov z Nov ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on na head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,199 Set by VIXEN



ACROSS

1 Star famed for converting rural property (9)
6 Arrange equipment (3-2)
9 A crook to some degree (5)
10 Music man taking in American supporter (9)
11 Finally call in an associate (10)
12 She'll do the cleaning and make tea (4)
14 The rest of a person's days (7)
15 Ready perhaps to accept silver at length (7)
17 A large cigar and really good drink may be brought back (7)
19 Cut in quarters with serious result (7)
20 Sound way to employ sheepish creatures (4)
22 Contracting for a second phone in temporary home (10)
25 One caring inordinately for greenness (9)
26 A fellow advocate (5)
27 Running water, and that's material (5)
28 Leaderless men dealt with made appeal (9)

DOWN

1 Spread quickly around the orient (5)
2 Viewing which is concerning (9)
3 Wily about mushroom-raising debts in deceptive fashion (10)
4 Take French in gin (7)
5 Revelation of the underworld coppers set down (7)
6 Note: youth is cheerful (4)
7 A portion of food, often chicken or fish (5)
8 The old mayor left with some soldiers the day before (9)
13 Criminal activity represents a big danger (10)
14 The burglar, it's clear, isn't disturbed (9)
16 A returning sailor set about people – shame! (9)
18 Reason for strengthening attachment? (7)
19 Points put in broadcast aren't sincere (7)
21 He shows little hesitation backing up a German (5)
23 Sum a top newsman carried (5)
24 For many this can give a boost (4)

Solution to Saturday's prize puzzle on Saturday October 26.
Solution to yesterday's prize puzzle on Monday October 28.

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

IRELAND (REGULATED)(**)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)
4 Rue Jean Monnet, L-2180 Luxembourg 352 424948320

	Selling Price	Buying Price	+ or -	Yield Gr's
Latin America Equity	$49.49	50.23	—	-
North America Equity	$79.15	79.55	—	-
Asian Tigers Equity	$60.30	60.98	—	-
Europe Equity	$72.71	72.57	—	-
Germany Equity	[illegible]	134.93	—	-
Japan Equity	$48.58	49.07	—	-
Europe Bond	$60.63	60.98	—	-
US Bond	$58.45	58.60	—	-
Global Bond	$60.71	60.86	—	-
Germany Bond B	[illegible]	108.84	—	-
Spain Bond	Pta9956	9980	—	-
Eastern Europe Equity F	[illegible]	186.67	—	-
China Equity F	$58.25	58.95	—	-
Switzerland Equity	[illegible]	123.53	—	-

Abtrust Fund Mngrs Luxembourg SA (u)
4 Boulevard Royal L 2449 Luxembourg 00 352 227001

Abtrust Atlas Fund

	Price	+ or -	Yield
Global Cap Portfolio	$3.698	+0.024	-
United States Portfolio	$5.382	+0.051	-
Cont'l Europe Portfolio	DM6.358	+0.002	-
Japan Portfolio	£0.642	-0.004	-
Pacific Portfolio	$6.465	-0.022	-
Gold Portfolio	$8.311	-0.041	-
UK Growth of Income	£2.122	+0.014	3.61
Dollar Portfolio	$1.900	+0.002	7.03
Sterling Portfolio	£1.105	—	6.30

Aetna Master Fund (u) (x)
21 avenue de la Liberte L-1931, Lux 00 352 479 96500

	Price	+ or -	Yield
Australian NAV	A$16.84	+0.12	-
Austrian Nat NAV	Sch64.24	+0.04	-

Fidelity Funds - Contd.
Country Select Funds

	Selling Price	+ or -	Yield Gr's
ASEAN	$19.66	-0.13	-
Asian Special Situations	$10.80	-0.05	-
Australia	A$16.88	+0.05	1.28
Emerging Markets	$8.418	-0.014	-
European Sm Cos F	DM13.38	+0.03	-
France	FFr84.68	+0.43	-
Germany	DM21.12	+0.06	-
Hong Kong	$48.67	-0.07	0.90
Iberia	Pta1831	—	-
Indonesia	$10.07	+0.02	-
Italy	L14365	-66	-
Japan Smlr Cos	Y1061	-1	-
Korea F	$8.081	-0.008	-
Latin America	$8.710	-0.022	0.52
Malaysia	$33.97	-0.03	-
Nordic	SKr179.8	+0.3	-
Singapore	$23.71	-0.41	-
Switzerland	SFr15.04	+0.03	-
Thailand	$27.43	-0.37	-
United Kingdom	£1.120	+0.001	-
Bond Funds			
European	Ecu11.11	-0.02	6.28
International	$1.048	-0.001	5.48
US Dollar	$5.584	-0.006	5.32
Sterling	£0.258	—	6.83
Yen	Y1857	+1	2.49
Balanced			
European Balanced	DM12.61	+0.03	1.92

Prices as at October 10

Fleming Group (u)
6 Route de Treves L-2633 Senningerberg Luxembourg
00 352 34181 or 0800 960 284

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross
Developing Mkts Strategic A	112.66		—	-
Developing Mkts Strategic B	113.93		—	-
GAM Select				
Select Asean Class A	$93.25		—	-
Select Asean Class B	$91.78		—	-
Select European A	$106.69		—	-
Select European B	$100.38		—	-
Select Japan A	$112.11		—	-
Select Japan B	$115.67		—	-
Select Money Markets B	$107.46		+0.01	-
Select North American A	$109.18		—	-
Select North American B	$126.31		—	-
Select Pacific A	$107.14		—	-
Select Pacific B	$104.98		—	-

	Selling Price	Buying Price	+ or -	Yield Gross
JF Global Securities Tst	$23.25	24.69	+0.12	-
JF International Bond	$10.48	10.87	-0.02	-
JF Managed Currency Fd	$15.35	16.25	+0.04	-
JF Masterfund				
JF Asia Growth Ptfolio	$8.91	9.44	-0.01	-
JF Intl Growth Ptfolio	$10.43	11.05	+0.02	-
JF Money Fund - US$	$104.92	104.92	+0.04	5.10
JF Money Fund - Yen	Y10027	10027	—	0.04
JF Money Fund - DM	DM102.84	102.84	+0.02	2.48
JF Money Fund - £	£105.40	105.40	+0.04	5.39
JF Money Fund - SFr	SFr101.40	101.40	+0.01	1.14
JF Money Fund - Ecu	Ecu103.95	103.95	+0.03	3.81
JF Money Fund - C$	C$104.40	104.40	+0.03	3.25
JF Money Fund - A$	A$108.83	108.83	+0.08	8.68
JF Money Fund - HK$	HK$104.84	104.84	+0.05	6.03

Global Asset Management - Contd.

	Selling Price	Buying Price	+ or -	Yield Gross
GAM Managed Portfolio				
Managed Portfolio	$1118.45		—	-
Swiss Registered Funds				
GAM (CH) Europe	SFr110.30		+0.30	-
GAM (CH) Mondial	SFr182.25		+0.46	-
GAM (CH) Pacific	SFr260.40		+0.55	-
SEC Registered Funds				
GAMerica Capital	$12.57		-0.01	-
GAM Asian Capital	$9.24		-0.06	-
GAM Europe	$11.24		—	-

Jardine Fleming Unit Trusts Ltd - Contd.

	Selling Price	Buying Price	+ or -	Yield Gross
JF Capital Guaranteed Master Series				
Hong Kong Index Sub Fund	$10.31		—	-
Tokyo Index Sub Fund	$9.63		+0.01	-
New York Index Sub Fund	$9.74		—	-
DEM Bull Sub Fund	$9.18		-0.01	-
DEM Bear Sub Fund	$10.08		+0.03	-
Yen Bull Sub Fund	$8.89		-0.01	-
Yen Bear Sub Fund	$10.21		+0.05	-
USD Account	$104.40	110.45	+0.04	5.10

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Mkt CapEm	Yld Gr's	P/E
Allied Domecq	♣†N	450½	+9	556	419	4,674	6.5	17.1
Bulmer (HP)	♣	620	----	625	477	274.8	3.2	17.4
Burn St Dist	♣	81½	+2	146	81	48.3	7.7	17.6
Glenmorangie A		755	----	775	600	87.9	2.0	19.3
Grand Met	♣†	484½	+2	491½	411	10,180	3.9	20.6
Guinness	♣♥†	444xd	-1	512	435	8,589	4.3	13.6
Highland	♣	330	-9	378	315	438.9	3.2	Φ
5¼pc Cnv Bds		100	-1	101½	36½	-	-	-
Kirin Y		669¼	-5	879½	622¼	7,043	0.8	29.1
Matthew Clark	♣	313½	+4	803	277½	277.4	8.6	14.9
Merrydown	♣	113	----	141	95	12.3	5.0	10.3
Seagram S		£22½	+⅛	£25⅝	£20⅛	6,214	1.2	-

BANKS, MERCHANT

	Notes	Price	+ or -	52 week high	52 week low	Mkt CapEm	Yld Gr's	P/E
Barclays 8pc Cm 2nd Prf		50½#	----	50½	50½	8.31	19.8	-
Cater Allen	♣	380½	+3	485	379	127.0	9.6	11.6
Close Bros	♣	337½xd	+6½	382	307½	407.4	3.7	13.6
Gerrard & Nat	♣	295	--	472	295	144.3	9.7	9.3
Hambros		280	----	287½	183	480.5	3.6	-
7½pc Cv Pf		112	----	119	94½	144.3	8.4	-
King & Shaxson	♣	162½	---	177	112½	42.9	6.9	14.1
Leopold J	♣	495	----	493	405	24.1	5.4	16.5
Rea Brothers	♣	62½	-2½	67	44	30.2	2.0	24.6
Schroders	♣†	1440xd	+5	1482½	1185	2,174	1.5	16.4
N/V	†	1182½xd	+5	1182½	890	520.3	1.8	13.4
Singer & Fried	♣†	128½xd	+1	134	99½	253.8	4.1	9.4
8¾pc Cv Ln 08/14		£159xd	-1½	£159	£124	47.2	5.5	-
Union	♣	102½	-1	115½	85½	27.3	1.7	11.0
Whiteust	♣	345	----	360	265	28.7	4.5	17.3

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

HOUSEHOLD GOODS - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PAPER, PACKAGING & PRINTING - Cont.

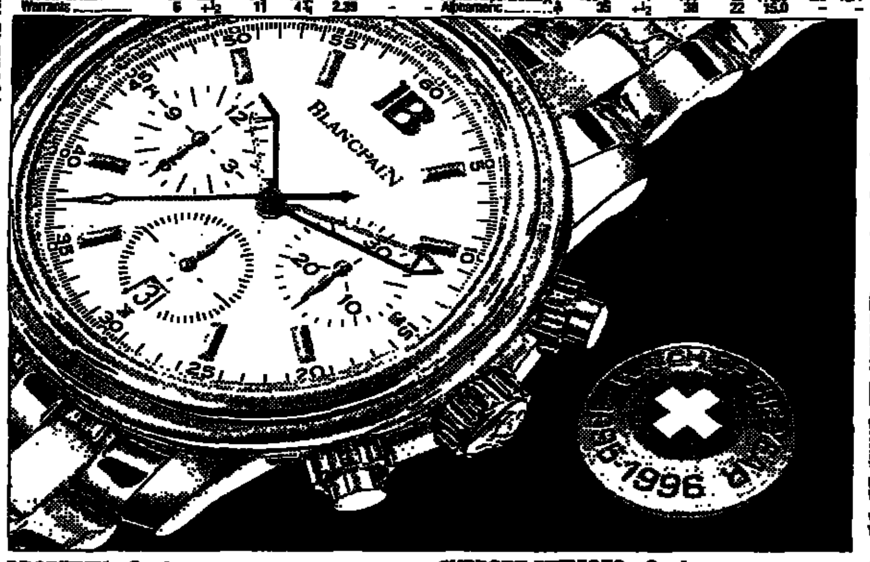
[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]



PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TELECOMMUNICATIONS - Cont.

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind	♣	£22¼xd	–	£23¼	£22¼	1,824	3.3	Φ
Barlow	♣†	823½	–½	£10½	555	1,268	2.0	–
Gold Flds Prop R		130½	–1	170	130	13.4	8.4	10.4
MK Props		98	----	98	60	2.41	14.9	–
SASOL	♥	645	----	710	475	3,777	1.7	–
SA Brews		£17¼	–⅜	£20¾	£16¼	5,061	2.0	Φ
Standard Bank		£26¼	–½	£32¾	£22¾	4,165	1.4	23.2
Tiger Oats	†	780	----	1270	770	1,188	2.0	16.6
Tongaat-Hulett		791½xd	–6¼	1247	736	749.2	2.3	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FT/SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.7(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
r Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a

FD (Foreign Income Dividend)
R Forecast annualise yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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LONDON STOCK EXCHANGE

FTSE 100 climbs to all-time closing record

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

A rampant Wall Street was just the tonic the UK market needed, projecting the FTSE 100 index through its previous all-time closing high, after London had endured a disappointingly quiet morning session.

Footsie ended the day a net 10.6 up at a record close of 4,038.7, and looked set to run on again this morning, dealers said, and launch an attack on its previous all-time intra-day high of 4,046.8.

The buoyancy of the leaders did not run through to the second liners, however, with the FTSE 250 index settling a net 0.3 off at 4,443.5. The FTSE SmallCap performed creditably, pushing up 3.6 to 2,182.4.

Adding to an air of euphoria in the leaders, triggered by the Dow Jones Industrial Average's emphatic move through 6,000, was a strong feeling around trading desks that more takeover activity is imminent.

A late story circulating in London was that a bid for Blenheim, the exhibitions group, from United News and Media, is imminent after suggestions that the latter had bought a 15 per cent-plus stake in Blenheim from Compagnie Générale des Eaux, the French utility. Even if the United News bid for Blenheim does not materialise, there are strong hints that VNU, the Dutch publishing group, is intent on hoisting its existing stake in Blenheim by a further 10 percentage points.

Elsewhere, last week's stories of potential bids in some sectors, notably insurance and leisure, were revived, with Commercial Union, the insurance company, and Manchester United heavily bought by speculators.

A note of caution was injected by some observers, however, who point out that the great crash of 1987 occurred on October 19 (which falls this year on a Saturday), but that the scene for the decline was set on the preceding Friday. This Friday sees the expiry of Footsie index options.

The session began on a subdued note, with the defection of another Tory MP to the Liberal Democrats undermining sentiment. Some slightly disturbing news on producer prices also caused problems, with gilts looking decidedly unhappy during the early part of the day before steadying. At its worst, Footsie was down over 11 points.

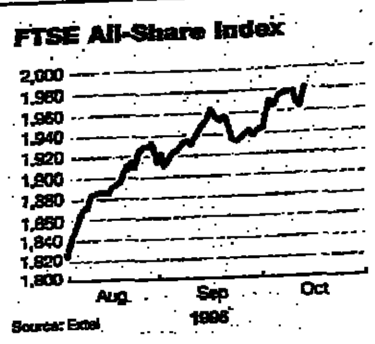
Dealers insisted, however, that there was never any real weight of downside pressure, "more a lack of interest", as one put it.

A rally began in mid-morning and this gradually drove share prices higher, with Footsie reaching a session high of 4,040.0 during the late afternoon before slipping off its best.

Asked about the market's short term potential, one senior marketmaker said: "It feels fine. The talk around the place is that we'll challenge 4,100 by the end of the week." Another said marketmakers had been caught short of stock and were having to pay up to close their short positions. "Institutions flush with cash and a host of bid stories is a potent cocktail in this market," he said.

Turnover at 6pm was 580.2m shares. The value of customer business on Friday was £1.71bn.

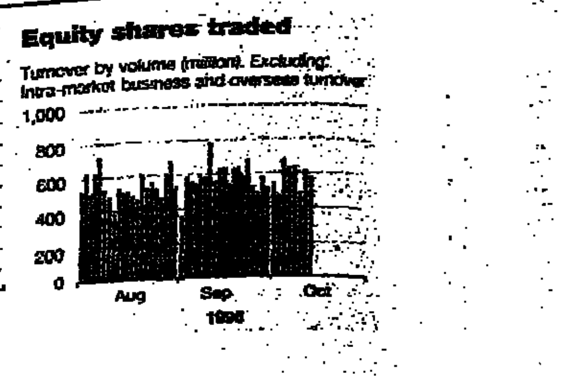
FTSE All-Share Index



Source: Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	4038.7	+10.6
FTSE 250	4443.5	-0.3
FTSE 350	2008.1	+4.1
FTSE All-Share	1980.98	+4.00
FTSE All-Share yield	3.73	3.74
FT 30	2846.7	+4.0
FTSE Non-Fins p/e	18.23	18.21
FTSE 100 Fut Dec	4073.0	+11.0
10 yr Gilt yield	7.45	7.47
Long gilt/equity yld ratio	2.10	2.10

Best performing sectors

1. Extractive Inds .... +1.3
2. Banks: Retail .... +0.8
3. Retailers: Food .... +0.8
4. Building Mats .... +0.6
5. Leisure & Hotels .... +0.6

Worst performing sectors

1. Gas Distribution .... -2.0
2. Health Care .... -0.8
3. Distributors .... -0.7
4. Diversified Inds .... -0.6
5. Textiles & Apparel .... -0.6

Blenheim bid talk continues

By Peter John and Lisa Wood

Continuing uncertainty over the future of Blenheim, the exhibitions group, which has been in play for some months, was responsible for the shares falling 10½ to 473½p. Reed International, the UK arm of Reed Elsevier, rose 16 to 1198½p, as the market ruminated on the idea that it might not bid. Rising speculation that United News & Media might be coming back into the picture resulted in its shares falling 9 to 653½p, on fears it might overpay.

Such speculation was vindicated after the market closed when it was disclosed that United News & Media is about to, or has agreement to, acquire the 15 per cent stake in Blenheim held by Compagnie Générale des Eaux. Analysts said it was a finger-biting time – coming on the eve of VNU, the Dutch publishing group, being able to increase its 14.99 per cent stake in Blenheim. Stock Exchange rules precluded VNU from increasing its stake until today, five days after its dawn raid.

BSkyB continued to advance, rising 8½ to 658½p, with speculation that DFI, the German pay TV channel, might be about to acquire a 5 per cent stake.

Continuing wild bid speculation was responsible for Manchester United climbing 45½ to 559p. The latest rumour was that IMG, the international sports management group, was in the frame. However, sources close to Manchester United said no director had received any bid approaches.

One analyst said there was a possibility that the aggressive buying of the shares by a number of brokers and the hype surrounding the club might flush out a bid at a time when there is considerable interest in the acquisition of football clubs.

Manchester United was floated at the equivalent of 77p a share in June 1991. At the time, some institutions said the shares were overvalued. Some analysts said that, at current levels, the shares were overvalued on fundamentals.

CU hints

Speculation of overseas interest in parts of Commercial Union lifted the shares 9½ to 677½p. The rise was made even more surprising considering that the recent strength of sterling against continental currencies will have hit CU's continental profits. Last year about half of the insurer's earnings came from mainland Europe.

Like other financial stocks, CU's share price performance is geared to broad market rises. But the current story is that ABN Amro, the big Dutch bank, is poised to make a bid for Delta Lloyd, CU's Netherlands subsidiary, which could carry a price tag of around £2bn.

Some electricity stocks fell after BZW took a pessimistic view on future dividend policies. The investment bank believes the Recs may find dividend policies unsustainable if Offer, the official regulator, uses the same basis for their price review as it has for National Grid.

Analyst Mr Simon Taylor said that, using the same basis of calculation for Recs and assuming a real rate of return of seven per cent compared with current Rec levels of 10-13 per cent, the financial position of the industry will tighten sharply. Mr Taylor said Yorkshire Electricity and London Electricity in particular looked overvalued as a result. London was down 3½ at 601p while Yorkshire fell 3½ to 751p and East Midlands 8 to 508½p.

Premier Farnell dropped 20½ to 660p after the company posted first-half profits at the low end of market forecasts. Profits fell to £56.1m from £71.3m a year before, while expectations had been in a range between £57.5m and £63.1m.

Also, the electronic components distributor said it did not expect to see a change in weak market conditions during the rest of the year.

Information technology group Sema rose 14 to 836½p after a recommendation in the Sunday press. The recommendation said the software and services sector was experiencing strong growth and rationalisation, with Sema set for strong organic growth and further acquisitions.

Smith & Nephew was easier after HSBC advised clients to take profits and the healthcare group said on Monday that difficult operating conditions were continuing although overall group sales growth continued in line with half-year results. The shares ended the day 4¾ lighter at 211½ on unusually heavy turnover of 17m.

SmithKline Beecham fell 7½ to 788p after UBS downgraded the stock to "hold" from "buy". UBS said the downgrade was based on performance and valuation. The broker's profit forecast remains unchanged.

Sears fell 4 to 87p with one marketmaker understood to have a long book on the stock, having absorbed a large position last week.

Top performer

TI was the best Footsie performer as Merrill Lynch raised the stock to "neutral" from "reduce" after the engineering group's £189m bid for Sweden's Forsheda.

The stock rose 13 to 569½p, more than making up for last week's decline, caused by Mannesmann selling its near 9 per cent stake in the company.

Dealers said Merrill highlighted the complementary nature of Forsheda's polymer business to its own operations in the field. The brokerage expects the acquisition to enhance TI's earnings by 3 per cent next year.

Highland Distilleries fell 9 to 330p after producing results at the bottom end of forecasts, partly because of costs associated with the acquisition of the Macallan-Glenlivet whisky operation.

Mining group RTZ improved 14 to 987½p, tracking gains in its Australian mining partner RTZ-CRA.

Hanson, the international conglomerate now splitting into four parts, was the principal casualty in the Footsie once again. The shares fell 2¾ to 81¾p. The day after the crash in 1987, the shares stood at the equivalent of 87.8p.

Airtours climbed 15½ to 622p after ABN Amro Hoare Govett, its house broker, reiterated its "buy" recommendation in the wake of Friday's announcement of the operator's intention to set up a new operation in California. Mr Andrew Hunter, Hoare's analyst, was reported to have said that he considered the shares cheap at current levels.

Lloyds TSB climbed to their highest level since last December, amid talk of switching from some other banks. The shares gained 7½ to 415p, making a rise of about 11.5 per cent during the last three weeks.

FT 30 INDEX

	Oct 14	Oct 11	Oct 10	Oct 9	Oct 8	Yr ago	*High	*Low
FT 30	2846.7	2842.7	2824.2	2835.2	2849.2	2614.4	2885.2	2668.8
Ord. div. yield	3.98	3.99	4.01	3.99	3.97	4.08	4.22	3.76
P/E ratio net	17.32	17.27	17.20	17.27	17.39	15.81	17.48	15.80
P/E ratio nil	17.16	17.11	17.04	17.11	17.23	15.63	17.30	15.71

FT 30 since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2836.2	2837.8	2837.0	2842.5	2842.4	2843.0	2841.5	2839.5	2845.7	2846.8	2833.5

	Oct 14	Oct 11	Oct 10	Oct 9	Oct 8	Yr ago
SEAQ bargains	40,879	38,128	37,402	40,097	43,580	30,199
Equity turnover (£m)†	-	1710.8	1701.9	1616.6	1747.2	1283.3
Equity bargains†	-	34,452	34,571	34,740	41,238	36,122
Shares traded (mil)†	-	554.1	567.6	554.6	606.7	452.8

†Excluding intra-market business and overseas turnover.

	Oct 14	Oct 11	Oct 10	Oct 9	Oct 8	Yr ago	*High	*Low
FTSE AIM	1010.60	1010.90	1006.80	1008.50	1004.50	-	1140.40	965.70

 *For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	560	Total Highs	117	Total contracts	39,652
Total Falls	580	Total Lows	61	Calls	20,212
Same	1,472			Puts	19,440

Oct 14 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4055.0	4073.0	+13.0	4078.0	4047.0	6931	62951
Mar	-	4085.0	+13.0	-	-	0	394
Jun	-	4097.0	+13.0	-	-	0	328

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	4475.0	+9.0	-	-	0	3571

■ FTSE 100 INDEX OPTION (LIFFE) (*4039) £10 per full index point

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p
§	F.P.	267.6	337½	314½	AEA Technology	334½
§	F.P.	33.0	85½	66	†Airtech	73½
§100	F.P.	-	100	95	Amer Opps Ln 03/06	[illegible]
§	F.P.	125.8	179½	165½	Brunner Mond	[illegible]
§135	F.P.	47.1	182½	152½	Charles Taylor	161½

FT GOLD MINES INDEX

FTSE Actuaries Share Indices

Produced in conjunction with the Faculty and Institute of Actuaries — The UK Series

FTSE Actuaries Industry Sectors

Hourly movements

FTSE 350 Industry baskets

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 14 / Sch)

BELGIUM/LUXEMBOURG (Oct 14 / Frs.)

CZECH REP (Oct 14 / Koruna)

DENMARK (Oct 14 / Kr)

FINLAND (Oct 14 / Mkk)

FRANCE (Oct 14 / Frs.)

GERMANY (Oct 14 / Dm.)

GREECE (Oct 14 / Drachma)

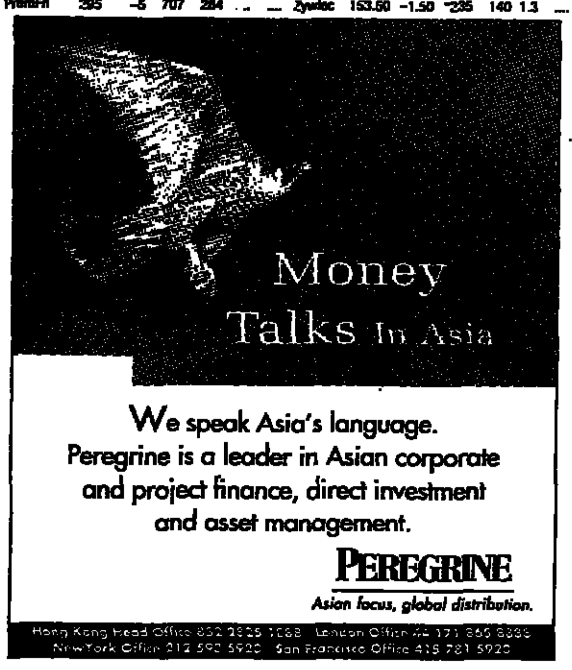
ITALY (Oct 14 / Lira)

NETHERLANDS (Oct 14 / Fls.)

NORWAY (Oct 14 / Kroner)

POLAND (Oct 14 / Zloty)

		+/-	High	Low	Yld	P/E
Elektrim	27.10	+.10	*28	8.35	0.7	..
Exbud	25.20	..	*40.75	22.20	—	..
Mostal	14.70	-.10	*15	6.40	.	—
Wedel	163	--	*166	82	0.7	—
Wlczak	19	...	*25	17.80	1.6	—
Zywiec	153.50	-1.50	*235	140	1.3	...



PORTUGAL (Oct 14 / Escudo)

		+/-	High	Low	Yld	P/E
BCO PI	1,605	-2	2,300	1,401	5.5	—
BCPort	1,883	+3	2,250	1,675	3.2	—
BESant	2,630	...	2,650	2,090	4.4	...
BancTA	2,770	+10	3,120	2,312	6.9	...
ModCnt	4,750	+25	4,800	3,430	1.3	..
PTelcm	4,090	-6	4,180	2,705	2.2	—
Sonlow	4,520	-7	4,600	3,075	3.3	—
Unicer	2,910	-4	3,000	2,260	3.6	—

SPAIN (Oct 14 / Pts.)

SWEDEN (Oct 14 / Kronor)

SWITZERLAND (Oct 14 / Frs.)

TURKEY (Oct 14 / Tk Lira)

PACIFIC

JAPAN (Oct 14 / Yen)

AUSTRALIA (Oct 14 / Aus$)

HONG KONG (Oct 14 / H.K.$)

INDONESIA (Oct 14 / Rupiah)

MALAYSIA (Oct 14 / MYR)

NEW ZEALAND (Oct 14 / NZ $)

SINGAPORE (Oct 14 / S$)

SOUTH KOREA (Oct 14 / Won)

TAIWAN (Oct 14 / TW $)

THAILAND (Oct 14 / Baht)

		+/-	High	Low	Yld	P/E
Advlnf	330	—	*510	202	1.8	...
BgkBak	360	...	380	248	1.2	—
BgkLnd	29	...	*45	23.75	0.9	—
DbSiam	80	-4.50	199	78.50	18.1	—
FinOne	70.50	-3.50	177	70.50	4.3	—
KrThBk	74.50xd	-5.50	147	74.50	2.1	..
LndHou	222	-6	612	210	2.3	...
PRThai	98	+2	368	93	3.9	—
SiamCm	836	..	1,824	828	1.2	—
SiamCl	150	...	428	139	5.3	—
SiamCB	230	-2	430	220	3.9	—
TeleAs	49.50	-25	83	41	—	..
ThaiFm	200	...	324	196	2.7	...

AFRICA

SOUTH AFRICA (Oct 14 / Rand)

NORTH AMERICA

CANADA

TORONTO (Oct 11 / Can $)

Closed Oct 14

MONTREAL (Oct 11 / Can $)

Closed Oct 14

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Oct 14	Oct 11	Oct 10	1996 High		1996 Low	
Argentina							
General(29/12/77)	(a) 17438.61	17571.11	18881.85	20/5		15287.25	22/8
Australia							
All Ordinaries(1/1/80)	2363.3	2336.8	2323.5	2363.30	14/10	2086.10	17/7
All Mining(1/1/80)	949.3	939.8	931.1	1116.40	8/5	923.18	23/9
Austria							
Credit Aktien(30/12/84)	366.83	365.67	364.20	394.88	31/5	349.18	6/9
Traded Index(2/1/91)	1081.81	1081.33	1072.87	1142.31	29/5	976.27	2/1
Belgium							
BEL20(1/1/91)	1774.78	1773.35	1785.13	1829.85	3/10	1574.80	2/1
Brazil							
Bovespa(29/12/83)	(a) 86087.0	86267.0	88522.00	12/7		43901.00	2/1
Canada							
Metals Mins♣(1975)	(c) 4931.10	4921.08	5524.60	8/5		4687.47	16/1
Composite♣(1975)	(c) 5461.20	5433.64	5461.20	11/10		4738.70	15/1
Portfolio$$(4/1/83)	(c) 2705.53	2688.16	2705.53	11/10		2327.39	12/1
Chile							
IGPA Gen♥(31/12/80)	(a) 5554.53	5560.64	5804.33	8/1		5215.26	8/4
Denmark							
CopenhagenSE(3/1/83)	449.04	445.73	445.28	449.04	14/10	388.40	2/1
Finland							
HEX General(28/12/90)	2189.85	2184.82	2163.37	2223.88	4/10	1851.67	10/1
France							
SBF 250(31/12/90)	1440.58	1441.98	1435.01	1457.56	6/6	1280.16	2/1
CAC 40(31/12/87)	2143.82	2147.12	2135.63	2161.54	8/10	1897.85	11/1
Germany							
FAZ Aktien(31/12/58)	942.61	940.52	940.40	945.80	7/10	818.58	2/1
Commerzbank(1/12/53)	109.27	2740.3	2738.3	2763.70	7/10	109.27	14/10
DAX(30/12/87)	2693.88	2696.03	2680.75	2702.99	9/10	2284.99	2/1
Greece							
Athens SE(31/12/80)	954.11	960.87	963.14	1017.98	4/3	872.98	7/8
Hong Kong							
Hang Seng(31/7/64)	12330.35	12218.40	12242.47	12330.35	14/10	10204.87	2/1
India							
BSE Sens.(1979)	3098.34	3180.52	3126.34	4069.26	18/6	2826.08	25/1
Indonesia							
Jakarta Comp.(10/8/82)	570.97	571.23	567.93	690.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2625.51	2636.98	2648.74	2700.04	4/10	2234.61	2/1
Italy							
Banca Comm Ital(1972)	613.60	619.27	620.07	674.10	20/5	572.21	27/3
MIB General(2/1/86)	1040.0	1050.0	1051.0	1142.00	20/5	970.00	27/3
Japan							
Nikkei 225(16/5/49)	21029.25	20968.16	(c)	22666.80	26/6	19734.70	13/3
Nikkei 300(1/10/82)	295.47	294.41	(c)	319.70	26/6	284.48	11/3
Topix(4/1/68)	1578.25	1571.87	(c)	1722.13	26/6	1524.12	13/3
2nd Section(4/1/68)	2043.15	2054.71	(c)	2251.48	2/7	1962.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1148.85	1140.74	1138.92	1186.54	30/4	893.18	2/1
Mexico							
IPC(Nov 1978)	(d) 3335.15	3365.35	3433.75	27/8		2738.38	8/3
Netherland							
CBS TtlRtnGen(End 83)	687.6	683.9	690.7	698.50	8/10	539.50	2/1
CBS All Shr(End 83)	404.8	401.8	399.9	404.50	8/10	328.70	2/1
New Zealand							
Cap. 40(1/7/86)	2284.47	2249.54	2231.71	2274.76	7/10	2025.14	7/8
Norway							
Oslo SE(Ind)(2/1/83)	1469.34	1459.08	1454.50	1469.34	14/10	1259.68	30/1
Philippines							
Manila Comp(2/1/85)	2935.86	2973.50	3002.35	3374.40	5/7	2578.97	2/1
Portugal							
BVL 30(4/1/93)	2010.85	2009.89	2011.94	2013.16	9/10	1602.61	2/1
Singapore							
SES All-S'pore(2/4/75)	505.30	508.56	513.80	610.37	5/2	505.30	14/10
South Africa							
JSE Gold(28/9/78)	1735.2♥	1728.1	1740.0	2030.40	29/5	1349.40	2/1
JSE Ind.(28/9/78)	8298.3♥	8270.4	8238.7	8739.30	25/1	7835.60	30/8
South Korea							
KoreaCmpEx**(4/1/80)	842.28	833.43	830.21	986.84	7/5	753.35	29/8
Spain							
Madrid SE(30/12/85)	372.69	370.90	371.15	375.25	1/7	323.75	11/1
Sweden							
AffarsvarldsGen(1/2/37)	2155.7	2153.1	2155.6	2169.20	8/10	1706.60	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1810.37	1805.07	1800.18	1811.88	11/7	1516.19	17/1
SBC General(1/4/87)	1284.08	1281.45	1278.85	1285.12	8/10	114.47	26/1
Taiwan							
WeightedPr.**(30/6/66)	6626.41	6578.36	(c)	6644.66	5/10	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	918.30	932.86	933.00	1415.04	6/2	918.30	14/10
Turkey							
Istanbul Comp.(Jan 1986)	79015.6	76210.5	76572.2	79611.80	9/10	38779.30	2/1
WORLD							
MS Capital Intl(1/1/70)	795.3*	791.9	787.5	795.70	7/10	725.90	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1758.17	1756.66	1754.34	1768.16	9/10	1604.40	11/1
Euro Top-100(26/6/90)	1486.88	1488.50	1481.41	1492.92	8/10	1333.01	11/1
HSBC JC Drgn(31/12/88)	(b)	385.88	387.29	388.39	3/10	344.19	2/1
ING Bngs Emrg(7/1/92)	161.15	161.23	161.58	169.91	4/7	147.35	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x index)							
Oct	2146.0	2149.0	-3.5	2150.0	2138.0	7,333	27,220
Nov	2151.0	2154.0	-3.5	2151.0	2145.0	508	2,417
DAX							
Dec	2700.5	2716.0	+9.5	2717.0	2699.0	10,677	-
Mar	2718.5	2734.5	+8.0	2733.0	2718.5	190	-
OMX							
Oct	1670.00	1675.00	+2.00	1681.00	1670.00	3,767	26,860
Nov	1681.00	1681.50	+5.50	1686.50	1681.00	433	2,224
SOFFEX							
Oct	3811.9	3812.0	+9.5	3820.5	3804.0	5,407	22,034
Nov	3814.0	3818.0	+9.8	3816.8	3814.0	2,914	4,506

** Sat Oct 12: Taiwan Weighted Price 6625.44; Korea Comp Ex 840.80. Base values of all indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♣ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Oct 14 - 2700.83 +8.14

US INDICES

Dow Jones	Oct 11	Oct 10	Oct 9	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5969.38	5921.67	5930.62	5992.86 (4/10)	5032.94 (10/1)	5992.86 (4/10/96)	41.22 (8/7/32)
Home Bonds	102.31	102.24	102.51	106.09 (14/2)	100.99 (15/7)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2075.89	2058.49	2049.63	2298.20 (22/5)	1882.71 (18/1)	2298.28 (22/5/96)	13.23 (8/7/32)
Utilities	221.49	220.16	221.49	234.00 (12/2)	204.86 (30/7)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 5999.56 (5956.71) Low 5912.36 (5876.56) (Theoretical‡)
Day's high 5972.73 (5930.99) Low 5923.54 (5905.27) (Actual‡)

Standard and Poors	Oct 11	Oct 10	Oct 9	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	700.66	694.61	696.74	703.34 (7/10)	598.48 (10/1)	703.34 (7/10/96)	4.40 (1/6/32)
Industrials♥	828.07	820.82	822.88	830.69 (7/10)	702.07 (15/1)	830.69 (7/10/96)	3.52 (30/6/32)
Financial	74.25	73.61	74.05	74.86 (4/10)	58.87 (10/1)	74.86 (4/10/96)	7.13 (4/9/74)
NYSE Comp.	372.89	370.35	371.35	374.74 (7/10)	321.41 (10/1)	374.74 (7/10/96)	4.64 (25/4/42)
Amex Mkt Val	580.41	579.99	580.10	614.99 (22/5)	525.60 (16/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1248.27	1236.97	1237.98	1250.78 (7/10)	988.57 (15/1)	1250.78 (7/10/96)	54.87 (3/10/74)

■ RATIOS

	Oct 4	Sep 27	Sep 20	Year ago
Dow Jones Ind. Div. Yield	2.15	2.17	2.16	2.43
	Oct 9	Oct 2	Sep 25	Year ago
S & P Ind. Div. yield	1.95	1.95	1.97	2.07
S & P Ind. P/E ratio	22.84	22.74	22.54	17.94

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Phrm UpJohn	18,465,800	36⅛	-5¼
Sabre	9,830,600	31⅝	+4⅝
Fresenius	4,207,000	25¼	+1⅛
Summit Prop	3,887,000	19⅛	....
Am Online	3,374,200	24¾	-1
Superior TI	3,092,100	17⅜	+1⅛
Compaq	2,902,800	71⅜	+2⅝
La Quinta	2,878,500	20⅛	-¼
Neiman Mrcs	3,009,500	34	-1½
Gulf Aero	2,778,000	25¾	....

■ TRADING ACTIVITY

● Volume (million)

	Oct 11	Oct 10	Oct 9
New York SE	398.575	397.090	408.910
Amex	14.934	17.754	18.552
NASDAQ	539.432	552.407	583.492
NYSE			
Issues Traded	3,216	3,227	3,240
Rises	1,462	1,082	887
Falls	867	1,253	1,468
Unchanged	887	892	885
New Highs	125	85	80
New Lows	24	38	36

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Dec	698.25	707.00	+1.10	707.00	705.40	59,140	190,406
Mar	712.70	713.15	+0.85	713.15	712.50	165	4,586

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ Nikkei 225							
Dec	21050.0	21130.0	+90.0	21130.0	20940.0	14,681	201,262
Mar	21060.0	21030.0	+110.0	21100.0	21020.0	2,017	10,202

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ‡ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Monday, October 14, 1996

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
NKK Corp	4.0m	285		Nissan Motor	1.8m	850	-9
Nichiboshin	3.8m	305	+9	Fuji Heavy Inds	1.8m	526	+2
Sumitomo Selka	3.1m	844	+28	JAL	1.8m	702	-18
Nippon Steel Cp	3.0m	338	+2	Bk Tk-M'bishi	1.7m	2370	+30
Miyakoshi Corp	2.7m	630	-100	Takashimaya	1.7m	1690	+20

NEW YORK STOCK EXCHANGE PRICES

4 pm close October 14

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
28⅜	17¾	AAR	0.48	1.9	23	310	u28⅜	25⅞	25⅞	-½
46⅛	36⅛	AMP	1.00	2.6	18	1907	39¼	38	38	
87½	68	AMR			16	9667	85¼	82¾	82¾	-2⅜
50½	37⅜	ASA	2.00	5.1	28	358	39⅝	38¾	39½	+⅝
51⅞	38⅛	AbbtL x	0.96	1.9	22	10384	u51⅞	50⅛	51¾	+1⅜
17¼	12¼	Abitibi Pr	0.40	3.1	8	97	13⅛	13	13	-⅛
20¼	13½	ABM Ind x	0.35	1.9	19	98	19	18½	18⅞	+½
21	13⅞	Acpincatn			42	83	d21	20⅝	20⅝	
57¼	37¾	ACE Ltd	0.56	1.0	13	3198	56¼	55¾	55¾	-⅛
10⅛	9⅛	ACM Gvt In x	0.48	4.8	6	616	u10⅛	9⅞	10	+⅛
7⅞	6⅝	ACM GvOpp x	0.57	8.3		58	7	6⅞	6⅞	-⅛
8⅝	8⅜	ACM Man x	0.80	9.5		258	8½	8⅜	8½	
13⅞	6⅛	Acme Elect	0.32	4.5	118	32	7¼	7⅛	7⅛	-¼
18	13⅞	Acme Mills			11	24	17⅞	17⅝	17⅞	
33¾	27¾	Acordia	0.72	2.4	17	13	30¼	30¼	30¼	-⅛
21⅜	12	Acuson			90	2223	18¼	17⅜	18⅛	+¼
20⅜	17⅞	Adams Expr	0.48	2.4	1	118	20¼	20⅛	20¼	
21¼	10¼	AdvMic			17	15430	17¼	16¼	17⅛	+1
11⅛	8½	Advest Grp	0.16	1.6	7	19	10	9⅞	10	+⅛
28⅛	9⅛	Advo Inc	0.10	0.86	37	211	12⅞	12¾	12¾	
51⅞	41⅛	Aegon	1.45	2.8	16	77	u51⅞	51⅛	51¾	+½
8¼	3½	Agritz			2	31	4½	4⅜	4⅜	
70⅞	57⅝	Ahman	0.80	1.2	7	7091	66	65⅛	66	-⅛
38½	28¼	Aflac	0.40	1.1	15	444	37⅜	36⅞	37⅜	+⅜
21⅛	17⅛	AGL Res	1.08	5.2	17	244	20⅜	20	20⅜	+⅜
[illegible]										

- A - (continued), - B -, - C -, - D -, - E -, - F -, - G -, - H -, - I -, - J -, - K -, - L -, - M -, - N -, - O -, - P - Q -, - R -, - S -

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Continued on next page

NYSE PRICES

4 pm close October 14

Continued from previous page

- X - Y - Z -

58¼	39¾	Xerox	1.16	2.1	49	8874	58½	55½	55¾	
47⅞	39¼	Xtra Corp	0.72	1.7	15	17	42¼	41⅞	41⅞	-½
25¾	20⅞	Yankee Egy	1.30	5.5	12	65	23⅝	23⅛	23⅝	+¼
53¼	43⅞	York Int	0.36	0.7	22	108	49⅞	48¾	49⅞	+⅛
3⅞	3	Zapata	0.14	3.9	10	42	3¾	3⅝	3⅝	-⅛
25¾	6⅞	ZnthEl			10	3058	15¾	15⅜	15½	-⅛
28⅞	21⅛	Zenith Nat	1.00	3.9	33	249	26⅛	25⅞	25⅞	-⅝
7⅛	6½	Zenix Inc	0.72	10.1		152	u7⅛	7	7⅛	+⅛
22⅞	15⅛	Zero	0.12	0.6	17	55	20	20	20	-¼
25½	18½	Zurn Ind	0.40	1.6	21	841	u25½	25	25¼	+¼
11⅜	10½	Zweig Fund x	1.08	9.8		186	11	10⅞	11	+⅛
9	8¼	Zweig Tot x	0.84	10.0		319	8½	8⅜	8⅜	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

‡ Dealings suspended.

AMEX PRICES

4 pm close October 14

NASDAQ NATIONAL MARKET

4 pm close October 14

Holiday rise takes index over 6,000

AMERICAS

Blue chip shares in the Dow Jones Industrial Average held above the 6,000 level at midsession yesterday, reflecting strength among cyclical issues, *writes Lisa Bransten in New York.*

At 1 pm, the Dow was 43.98 stronger at 6,013.36, continuing the rally that began late on Friday. The Standard & Poor's 500 added 3.78 at 704.44, but the American Stock Exchange composite fell 0.69 at 579.52. NYSE volume was 189m shares.

Toronto was closed for Thanksgiving Day.

Yesterday's rally was achieved in low volumes and without support from the bond market, which was closed in observance of Columbus Day.

Technology shares were also strong, with the Nasdaq composite also poised to close at a record high. Close to 1 pm, the index was up 5.83 at 1,254.1, surpassing the record of 1,250.87 set last Monday. A strong performance among cyclical shares helped the Dow, which is weighted that way, to outperform the more broadly traded S & P.

Cyclical shares were helped by a strong earnings report from Chrysler. The smallest of the "Big Three" automakers reported third-quarter earnings of 93 cents a share, well ahead of the median forecast of 71 cents a share. Chrysler advanced $1¼, or 4 per cent, to $32⅞, while General Motors, a component of the Dow which was due to report earnings today, added $1⅜, or 3 per cent, at $51½ and Ford added $⅝ at $32⅞.

Travelers Group advanced $1⅜, or 3 per cent, to $53⅝ after it reported third-quarter earnings of $1.15 a share, 9 cents stronger than the mean forecast.

Shares in Eaton slumped $1¼ at $58⅝ even although the company reported stronger than expected earnings. Investors were put off by the company's warning that it would not achieve its financial goals for this year.

Shares in Thrifty Payless Holdings jumped $3 or 16 per cent to $21⅝ on news that Rite Aid, a rival drug store chain, had agreed to acquire the company. Rite Aid fell $1⅝ or 5 per cent to $34.

Mexico City falls 1.3%

Mexico City was 1.3 per cent lower at midsession, reflecting weakness in the peso and expectations of an increase in primary interest rates at this week's Cetes auction. The IPC index fell 43.56 to 3,291.59 on news that the government had bowed to stiff political pressure and had scrapped a project to sell 100 per cent of its secondary petrochemical plants. Instead, it offered joint government/private sector ventures.

CARACAS was weak, with the IBC index down 24.27 to 5,932.51, in spite of a renewed government commitment at the weekend to economic reform.

S Africa rises to record high

Johannesburg ended firm in quiet trade, with golds supported by gold quarterly results, which were mostly in line with expectations, and industrials lifted by gains in key stocks.

The overall index added 17.0 to an all-time high of 7,071.5, industrials gained 27.9 to 8,298.3 and golds rose 7.1 to 1,735.2. Turnover was a moderate R398m.

Anglos rose R2.75 to R294.50, First National Bank Holdings added 65 cents to R29 and the mining and industrial holdings group, Anglovaal, climbed R4.50 to R144.00.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1996	Start of 1996	Start of 1996
Austria	-0.42	+4.11	+8.84	+10.39	+1.70	+3.19
Belgium	-1.19	+1.03	+21.81	+10.77	+1.83	+3.33
Denmark	+1.86	+4.50	+25.52	+21.32	+12.91	+14.56
Finland	-2.71	+2.65	-6.31	+20.64	+12.81	+14.47
France	-0.01	+2.75	+20.71	+17.15	+8.96	+10.55
Germany	-0.04	+3.19	+22.43	+16.84	+7.62	+9.20
Ireland	-1.77	+4.37	+24.23	+18.83	+17.47	+19.19
Italy	-3.25	+2.04	-0.16	+0.31	+2.97	+4.49
Netherlands	+0.70	+3.75	+29.62	+21.07	+11.38	+13.02
Norway	+1.42	+4.34	+19.37	+17.23	+12.16	+13.81
Spain	-0.42	+4.23	+30.02	+17.03	+8.65	+10.25
Sweden	+0.69	+3.29	+21.20	+24.77	+23.50	+25.32
Switzerland	+0.10	+2.47	+23.55	+14.55	+3.51	+5.03
UK	+0.13	+1.14	+15.38	+9.26	+9.26	+10.86
EUROPE	-0.06	+2.33	+18.91	+13.60	+8.74	+10.33
Australia	+0.77	+3.92	+11.56	+4.48	+9.49	+11.09
Hong Kong	+2.29	+6.43	+23.09	+19.19	+17.46	+19.19
Japan	-1.23	+0.15	+10.05	+-0.59	-9.48	-8.15
Malaysia	-1.42	+2.68	+19.78	+15.78	+15.63	+17.33
New Zealand	+0.05	+2.10	+5.96	+2.78	+7.49	+9.06
Singapore	-3.96	-4.78	+0.06	-7.69	-8.67	-7.34
Canada	+0.64	+4.18	+23.92	+17.41	+16.64	+18.35
USA	+0.15	+2.95	+20.23	+13.60	+11.96	+13.60
Mexico	-1.09	+1.06	+40.39	+20.31	+19.84	+21.59
South Africa	+0.38	+1.96	+21.95	+13.98	-9.88	-8.56
WORLD INDEX	-0.33	+2.21	+17.50	+10.24	+5.79	+7.34

† Based on October 11th 1996.

Three new highs as Dow cheers bourses

EUROPE

Wall Street's Columbus Day frolics had a echo in Europe where Friday's stars, COPENHAGEN, OSLO and BUDAPEST, registered new all-time highs and where senior bourses ended the day in more jovial form than they had displayed earlier.

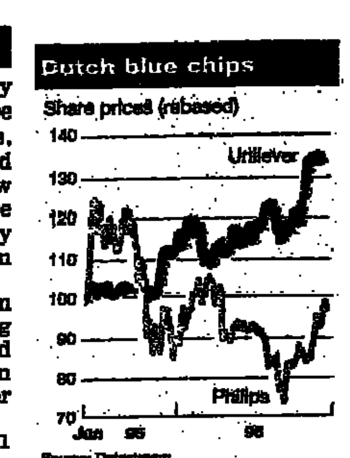
AMSTERDAM ended firm in spite of a profits warning from Philips Electronics and talk of an ice cream row in Europe which made Unilever wobble at the outset.

The AEX index closed 1.71 higher at 588.91, up from the early session low of 584.98 which followed the Philips warning. Philips itself closed Fl 2.30 or 3.6 per cent down at Fl 62.50, up from a session low of Fl 60.40, after the group said that second-half operating profits were unlikely to improve, as it had previously predicted.

An ice cream row in Ireland was not seen as an immediate threat to Unilever's European market share, and the certificates ended just 90 cents lower at Fl 268.30. Against this, in blue chips, there was real strength in Royal Dutch, up Fl 4.50 to Fl 282.30 on oil price gains.

In shipping, Smit Internationale, a Nedlloyd subsidiary, said it was selling its fleet of 49 offshore supply ships to US company, Seacor Holdings, and rose Fl 6 to Fl 99.

Dutch blue chips



Source: Datastream

FRANKFURT closed over the 2,700 level, the Dax index rising 8.14 to an Ibis-indicated 2,700.83 in turnover down DM1bn to DM6.1bn.

Share price performance was subdued among the big blue chips, Daimler leading with a rise of 76pfg at DM84.45.

Deutsche Babcock, once a member of this company but ejected from the Dax 30 last year, dropped another DM5.40, or 10.9 per cent, to DM46.50 after it announced that restructuring costs would be higher than planned.

Among the winners, the wholesale chemicals company, Gehe, rose DM2.75 to DM107.75 on a plan to sell its generics activities. Fresenius Medical Care, the newly launched dialysis offshoot of Fresenius and WR Grace of the US, leapt DM6, or 5.3 per cent, to DM121.45 on talk of it joining the M-Dax index. Fresenius itself, the best performer in the German market this year, saw its pref shares DM7.95, or 2.6 per cent, better at DM320.

PARIS was uneasy about Thursday's public sector strike, but equities came up from a low of 2,132.36 to close with the CAC-40 index just 3.50 lower at 2,143.62 in modest turnover of FFr2.8bn.

Notable moves were mostly on the downside. Carrefour, the retailer, fell FFr47, or 1.6 per cent, to FFr2,847 on market rumours that it might seek to acquire control of Comptoirs Modernes, in which it holds a 23 per cent stake, although Carrefour said that no such negotiations were under way.

The carmakers, Peugeot Citroen and Renault SA, fell FFr7 to FFr581, and FFr1.80 to FFr121. The sector had enjoyed a boost from the French rebate scheme to encourage the purchase of new cars, but with that over, October car sales in France were believed to be weak.

ZURICH built a small advance on Wall Street's pre-weekend strength and the SMI index finished 8.5 higher at 3,513.7. Among pharmaceutical stocks, Roche certificates advanced SFr70 to SFr9,655 on expectations of good nine-month sales figures, to be announced today.

Winterthur rose SFr9 to SFr785 in further response to news that it was the first European insurer to be awarded a licence to do business in the Chinese market, which is being opened up slowly to foreign operators.

Sulzer jumped SFr16 to SFr758 after the company called a news conference for Thursday to give details of structural changes at its Sulzer Rueti weaving machine division.

HELSINKI saw a sharp early fall in UPM-Kymmene, the country's biggest forestry group, as some investors speculated that the markka's weekend link to the ERM would damage the Finnish forest industry's competitiveness.

Down 3.2 per cent at one stage, UPM eventually shed FM1 at FM93.50. The broad market was mixed, with the Hex index 5.18 higher at 2,189.95.

Amer, the sporting goods group, rose FM3 to FM108 after the company said that it had signed a letter of intent to sell its MacGregor Golf company to the privately owned Masters International of the UK.

MILAN picked up from the day's lows, helped by Wall Street and confirmation that the hard left will back the government's 1997 budget. The Comit index lost 5.77 to 613.50, while the real-time Mibtel index finished 40 weaker at 9,802.

Fiat remained at a three-year low, losing L69 to L3,964, after L3,920, on further concerns about the weakness of the Italian car market and the effects of the strong lira on the company's overseas operations.

Against the trend, Gemina picked up L7.8 to L703.8 as a meeting with analysts got under way. Olivetti and Cofide remained at the centre of attention. Olivetti fell L16.7 to L490.9, while Cofide dropped L36.6 to L536.3 of its recent advances.

Mediobanca gave up L149 to L8,158 in response to 1995-96 results.

MADRID saw strong buying interest in electrical utilities, and the sector rose 1.28 per cent as the general index gained 1.79 at 372.69. STOCKHOLM's drug stocks were mixed. Pharmacia & Upjohn lost another SKr4.50 at SKr239 after Friday's 12 per cent slide on a surprise profit warning, but Astra, which received its first approval for a new asthma treatment, put on SKr4 at SKr296.50 as the Affärsvärlden General index rose 2.6 to 2,155.7.

Written and edited by William Cochrane and Michael Morgan

FTSE Actuaries Share Indices

Oct 14							THE EUROPEAN SERIES	
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	1759.12	1759.31	1759.61	1759.58	1759.41	1758.66	1758.67	1759.17
FTSE Eurotrack 200	1812.42	1813.77	1813.53	1813.61	1812.34	1812.22	1812.72	1812.80

	Oct 11	Oct 10	Oct 9	Oct 8	Oct 7
FTSE Eurotrack 100	1756.66	1754.35	1758.10	1762.69	1763.88
FTSE Eurotrack 200	1808.54	1805.46	1812.84	1813.15	1818.22

Base value 1000 (26/10/90); Highday: 100 - 1760.04; 200 - 1814.25 Lowday: 100 - 1758.14 200 - 1811.11. † Partial.

Tokyo volume registers pre-election 1996 low

ASIA PACIFIC

Caution marked the opening of TOKYO's final week before Japan's general election on October 20. The Nikkei average closed a shade higher but volume slid to a new 1996 low, *writes Gwen Robinson.*

The 225 index closed 61.09 higher at 21,029.25, after moving between 20,905.37 and 21,058.00. Volume slumped from 299m shares to an estimated 187m. The previous low of 199m shares was posted on October 7.

The Topix index of all first-section stocks rose 4.38 to 1,576.25, and the capital weighted Nikkei 300 by 1.06 to 295.47. Advances led declines 509 to 473 with 227 unchanged. In London, the ISE/Nikkei 50 index rose 0.85 to 1,435.46.

Traders noted fresh buying interest from foreign securities houses and a late-afternoon surge of arbitrage-linked purchases on higher index futures. However, indecision and uncertainty about the election kept many investors on the sidelines.

West Japan Railway (JR West) reversed its closely watched winning streak following last week's modest market debut and shed Y4,000 to Y370,000.

On the other hand, East Japan Railway (JR East), the first railway to be privatised of the government's defunct JNR group, broke a losing trend to gain Y6,000 at Y503,000.

Real estate developers rose on expectations that the next government would implement measures to stimulate the property market. Mitsui Fudosan added Y30 at Y1,440 and Mitsubishi Estate Y30 at Y1,450. Carmakers were mixed, Toyota Motors adding Y30 to Y2,730 and Nissan Motor slipping Y9 to Y850.

Semiconductor-related issues fared well on reports of a likely rise in demand, Toshiba rising Y14 to Y755, NEC Y10 to Y1,260 and Fujitsu Y10 to Y1,060.

Japan Airlines continued to suffer from reports that it will shortly announce an unexpected fall in profit for the fiscal first half to September 30, shedding Y18 to Y702 after losing Y45 last Friday.

In Osaka, the OSE average rose 18.78 to 21,570.62 in volume of 14.5m shares.

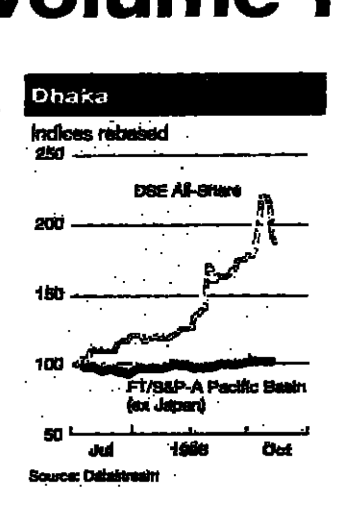
SYDNEY hit a record closing high on the back of Wall Street and a A$2.7bn regional bank merger proposal. The All Ordinaries index ended 26.5 higher at 2,363.3, in turnover of A$679.6m.

Among banks, St George dropped 40 cents to A$8.55 after it offered A$7.30 a share for Advance, which leapt 57 cents to A$6.85. Among other regionals, Bank of Melbourne put on 25 cents at A$8.65 and Adelaide Bank 24 cents at A$4.29.

HONG KONG scored a record closing high as the market took its lead from Friday's rise in US stocks and bonds and investors continued to look for further gains in local share prices.

The Hang Seng index closed 111.95 higher at 12,330.35. Turnover slipped to HK$6.9bn. HSBC Holdings rose HK$2 to HK$149.50 and Hang Seng Bank HK$2.50 to HK$90.25.

Dhaka



Source: Datastream

DHAKA saw angry scenes among small investors in kerb trading as share prices remained weak after their weekend tumble which followed a warning by the market watchdog against trade in 24 lossmaking companies.

The DSE index had lost 4.4 per cent on Saturday and 6.3 per cent on Sunday, after the exchange authorities imposed a 10 per cent ceiling on price changes in an effort to stop wild movements and the quotation of speculative prices.

The index lost another 19.86 or 1.1 per cent to 1,793.58 yesterday, as hundreds of police were posted in the roads around the exchange in an effort to maintain order.

WELLINGTON rose in spite of the inconclusive general election result, the NZSE-40 Capital index ending 14.93 higher at 2,264.47. Brokers noted that the ratings agency, Standard & Poor's, had said that it was broadly comfortable with the election outcome.

BANGKOK saw late local mutual fund buying, but this was unable to save it from a 39-month low after investors sold shares on worries over bank earnings and concern that some property companies might have cash problems. The SET index ended 14.56 lower at 918.30 in turnover of Bt2.9bn. Somprasong Land, which had denied that it had debt settlement difficulties, slipped another Bt1 to Bt10.25.

MANILA, too, saw some weakness in a property company, but here the 1 peso fall to 26 pesos in Ayala Land was put down to profit-taking as the composite index fell 37.73 or 1.3 per cent to 2,935.86.

SINGAPORE dropped 1.5 per cent to an 18-month low in further response to news that a recent government land sale had attracted only two low bids. The Straits Times Industrials index fell 31.07 to 2,045.58, also under pressure from revisions for third quarter growth.

However, dealers said that the fall was exaggerated by a trading error in Singapore Petroleum when one lot was exchanged at S$1.08, down 69 cents. The share was last quoted at S$1.69.

KARACHI added to Sunday's advance on speculative buying of a handful of blue chips after news that the government planned to tax agricultural income to help plug its yawning budget deficit, dealers said.

The KSE-100 index rose 9.16 to end at 1,383.79.

BOMBAY resumed its downward path as support from local funds dried up with most large players remaining on the sidelines. The BSE-30 index lost 61.18 or 1.94 per cent to 3,099.34.

SEOUL turned back from its best levels of the day in a mid-afternoon consolidation that ate away at morning gains. The composite index closed 1.48 higher at 842.28, off a high of 849.12.

Banks were in the spotlight on the possibility of mergers and acquisitions and restructuring after South Korea's entry into the OECD on Friday.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY OCTOBER 11 1996								THURSDAY OCTOBER 10 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (78)	211.11	0.8	198.69	148.97	168.09	177.53	0.5	4.29	209.48	198.30	147.34	166.60	176.64	212.18	178.77	182.66
Austria (24)	180.10	0.3	169.50	127.09	143.40	143.27	0.4	1.96	179.62	170.03	126.34	142.85	142.74	195.04	166.11	177.79
Belgium (27)	216.10	0.2	203.38	152.49	172.06	168.14	0.4	3.97	215.57	204.07	151.63	171.45	167.58	221.99	190.68	190.88
Brazil (28)	180.54	-0.2	169.92	127.40	143.75	341.13	0.0	1.85	180.86	171.22	127.23	143.86	341.20	189.70	123.97	148.04
Canada (116)	175.66	0.3	165.34	123.97	139.88	172.13	0.4	2.07	175.17	165.82	123.21	139.32	171.42	175.68	134.14	143.55
Denmark (30)	330.82	0.6	311.35	233.45	263.40	264.06	0.7	1.74	328.93	311.37	231.36	261.61	262.17	330.82	276.89	279.90
Finland (23)	214.13	1.1	201.53	151.10	170.49	205.67	1.2	2.49	211.71	200.41	148.91	168.38	203.20	253.37	171.73	242.93
France (93)	198.34	0.3	186.67	139.96	157.92	161.24	0.6	3.01	197.65	187.11	139.03	157.20	160.34	200.00	167.70	171.36
Germany (58)	178.75	0.0	168.23	126.14	142.32	142.32	0.1	1.74	178.69	169.15	125.69	142.12	142.12	180.26	156.66	158.92
Hong Kong (59)	462.09	-0.1	434.89	326.07	367.92	458.73	-0.1	3.39	462.61	437.91	325.39	367.92	459.25	463.31	364.67	375.47
Indonesia (27)	204.07	0.7	192.06	144.00	162.48	290.57	0.7	1.73	202.63	191.82	142.53	161.16	288.52	–	–	–
Ireland (16)	304.54	0.0	286.62	214.90	242.48	286.91	-0.1	3.36	304.64	288.38	214.28	242.29	287.13	308.44	241.27	245.61
Italy (59)	77.01	-0.6	72.47	54.34	61.31	87.60	-0.6	2.35	77.46	73.33	54.48	61.61	88.13	84.63	67.22	73.09
Japan (480)	142.30	-0.1	133.93	100.42	113.30	100.42	0.2	0.76	142.48	134.88	100.22	113.32	100.22	164.66	137.75	143.14
Malaysia (107)	569.16	-0.1	535.67	401.64	453.18	549.23	-0.1	1.20	569.58	539.18	400.63	453.00	549.61	585.09	425.77	468.84
Mexico (27)	1259.45	-0.9	1185.32	888.74	1002.78	10497.68	-0.8	1.33	1271.06	1203.22	894.04	1010.90	10582.62	1325.66	791.99	1015.46
Netherland (19)	308.22	0.4	290.08	217.50	245.40	241.56	0.5	3.05	307.05	290.67	215.98	244.21	240.40	310.99	251.61	255.79
New Zealand (15)	86.88	1.1	81.77	61.31	69.18	66.49	0.9	4.13	85.92	81.33	60.43	68.33	65.87	87.97	75.94	78.02
Norway (35)	263.21	0.5	247.72	185.74	209.57	232.51	0.5	2.18	261.80	247.82	184.14	208.21	231.31	268.21	222.24	228.77
Philippines (22)	185.46	-0.6	174.55	130.87	147.67	242.80	-0.6	0.66	186.60	176.64	131.25	148.41	244.20	–	–	–
Singapore (43)	377.35	-1.8	355.14	266.28	300.45	245.02	-1.8	1.14	383.31	362.85	269.62	304.86	248.98	465.21	361.94	373.23
South Africa (44)	352.35	0.6	331.61	248.64	280.54	349.94	0.4	2.19	350.15	331.46	246.29	278.48	348.52	437.78	314.20	359.47
Spain (37)	182.12	-0.1	171.40	128.51	145.00	177.68	-0.1	3.31	182.36	172.62	128.27	145.03	177.87	184.00	146.15	148.02
Sweden (48)	391.10	-0.1	368.08	275.98	311.39	382.04	0.0	2.24	391.28	370.39	275.22	311.19	382.02	395.12	294.19	308.05
Switzerland (37)	247.85	-0.1	233.26	174.90	197.34	192.64	0.2	1.53	247.98	234.75	174.43	197.23	192.48	254.34	217.92	217.92
Thailand (45)	116.53	-1.0	109.67	82.23	92.78	115.12	-0.9	2.98	117.67	111.39	82.77	93.69	116.29	193.95	116.53	187.72
United Kingdom (213)	255.57	1.4	240.53	180.35	203.49	240.53	0.8	3.92	252.17	238.71	177.37	200.56	238.71	256.57	221.18	221.18
USA (623)	285.43	0.9	268.63	201.41	227.26	285.43	0.9	2.06	282.92	267.82	199.00	225.01	282.92	286.55	238.38	237.40
Americas (794)	261.12	0.8	245.75	184.26	207.91	219.50	0.8	2.07	258.97	245.15	182.16	205.97	217.67	262.12	215.17	216.88
Europe (718)	221.82	0.6	208.56	156.39	176.45	193.00	0.4	2.98	220.39	208.62	155.02	175.28	192.18	222.28	191.44	191.82
Nordic (198)	332.93	0.3	313.33	234.93	265.08	286.68	0.3	2.18	332.06	314.34	233.57	264.10	285.78	338.74	261.13	281.69
Pacific Basin (876)	157.62	-0.1	148.34	111.22	125.50	112.73	0.1	1.24	157.75	149.34	110.97	125.47	112.57	177.01	148.86	153.77
Euro-Pacific (1594)	184.16	0.2	173.32	129.96	146.63	142.99	0.3	2.11	183.73	173.93	129.23	146.13	142.56	190.57	166.51	169.57
North America (739)	278.79	0.9	262.38	196.73	221.97	277.94	0.9	2.08	276.41	261.66	194.42	219.84	275.65	279.81	230.17	231.60
Europe Ex. UK (505)	198.55	0.1	186.86	140.11	158.08	165.47	0.2	2.41	198.34	187.75	139.51	157.74	165.08	200.25	170.51	171.59
Pacific Ex. Japan (396)	293.91	0.0	276.61	207.40	234.01	253.64	0.0	2.96	293.80	278.12	206.65	233.66	253.75	298.68	243.56	254.50
World Ex. US (1809)	186.15	0.2	175.19	131.35	148.21	149.05	0.3	2.10	185.72	175.81	130.63	147.71	147.84	191.55	167.26	170.70
World Ex. UK (2219)	213.51	0.4	200.94	150.67	170.00	182.31	0.5	1.90	212.60	201.26	149.54	169.09	181.38	214.87	185.61	188.23
World Ex. Japan (1952)	257.08	0.7	241.94	181.41	204.68	243.12	0.8	2.43	255.34	241.71	179.60	203.07	241.59	257.75	217.28	217.98
The World Index (2432)	217.14	0.5	204.36	153.22	172.89	187.54	0.5	2.09	216.02	204.49	151.95	171.81	186.53	218.23	186.87	191.11

 Latest prices were unavailable for this edition. Market closed 10/10/96: Japan.

SPANISH BANKING and FINANCE

Now entering the realm of the possible

The change of government and the budget, backed by growth prospects, have reinforced confidence, writes David White

"And is it a very dangerous exploit, that one?" Sancho Panza asked.

"No," replied the Knight of the Mournful Countenance, "it is not – not if the dice fall right for us; but everything will depend on your diligence."*

What seemed implausible has now entered the realm of the possible. Spain's aspiration to qualify as a founder-member of the European single currency no longer appears as Quixotic and far-fetched as it did only a few months ago.

Not all experts are yet convinced that Spain can meet the Maastricht treaty criteria in time for joining the first group of countries in the euro, if it is launched as planned in 1999. But the idea that Spain might, by hook or by crook, actually make the grade has been gaining converts.

The centre-right Popular party government, not yet six months in office, has made a heavy investment of political capital in the attempt. Mr José María Aznar, prime minister, says his determination is "absolutely irreversible". He stirred up controversy in Italy by making it plain, in a recent FT interview, that Spain was not looking for allies in trying to seek a back-door entry. On the contrary, it was intent on getting there on its merits, keeping to the prescribed terms and timetable.

In effect – and before Spain has got around to beginning its public promotion campaign for the euro – Mr Aznar has doubled his bet. In a country still solidly in favour of European integration, he could hardly now fail without political damage.

Membership is seen as anchoring Spain in a "zone of stability," with lower borrowing rates, healthy budgets and – after four devaluations since 1992 – a solid currency. The objective is central to the understanding between the government and regional parties, whose support it depends on in parliament. Meeting the criteria for inflation and the public deficit has become the government's overriding task.

This may mean putting off other difficult reforms. A crucial factor in Spain's future competitiveness will be the functioning of its labour market, still one of Europe's least flexible. The government has threatened to push changes through next year, but it is questionable whether it will risk a confrontation on the issue before the single-currency hurdle is cleared.

Although some of its early measures have been controversial – such as taxing capital gains at a privileged 20 per cent rate – the government has so far managed to avoid serious friction over its economic plans. In its search for consensus, it has offset the impact of a public-sector wage freeze by making concessions to unions over state pensions – to the dismay of employers who were hoping for cuts in their social security contributions.

The shift in sentiment about Spain's prospects for European monetary union coincides with the government's first draft budget, now before parliament. Even though the Popular party does not have a majority, its passage is guaranteed. This means Spain will at least have a proper budget – in contrast to the situation created a year ago when a parliamentary defeat forced Mr Felipe González's Socialist administration to roll over the budget from the previous year.

The new budget, aiming for an overall deficit of 3 per cent of gross domestic product, in line with the targets of the economic and monetary union (Emu), received backing from the Bank of Spain in the form of a half-point cut in its benchmark interest rate earlier this month to 6.75 per cent, the lowest level of recent times.

The credibility of the plan is strengthened by signs that economic growth, after slowing down from the spring of 1995, is picking up. Economists see the second quarter's 1.9 per cent year-on-year rate improving to around the government's target of 2.3 per cent at the end of the year, and speeding up further next year, although maybe not to the 3 per cent the government forecasts.

However, Mr Aznar was overstating the case when he asserted, at this month's special EU summit in Dublin, that "there are no doubts anywhere" about Spain's ability to qualify for the euro. The Bank of Spain has been warning about the risk of wage pressures affecting the country's performance on inflation, due under the government's plan to be at 3.5 per cent at the end of this year and 2.6 per cent a year later.

Madrid is counting on lenient treatment for public debt, which it expects to remain above 67 per cent of GDP, over the 60 per cent target, although with the trend turning downwards slightly for the first time next year.

The budget centres on a Pta600bn reduction in the central government's deficit. This means holding down the increase in spending to 1.7 per cent, with heavy cuts in investment and subsidies, and lifting revenues by 6 per cent or Pta907bn, partly from new taxes including a 4 per cent levy on most insurance policies.

However, experts raise doubts about how sustainable the spending controls will be. They see the government storing up problems for later, for instance by refusing to assume debts built up by state bodies such as the RTVE broadcasting authority. Mr Aznar's answer is: "We'll have to tackle this in the future. It is not the time to deal with it now."

Above all, the budget appears to have made an optimistically small allowance for the deficits of the social security system and Spain's self-governing regions.

Despite Mr Aznar's strong declaration of intent, some analysts believe Spain is still more likely to join the euro in a second wave, after two or three years – if, that is, it can move closer to the targets in the interim.

All this leaves the Spanish financial sector in the awkward position of making preparations for the euro without knowing for sure whether or when the country will adopt it. "We have to behave as if we had the certainty of joining," says one banker. Adaptation costs and the short-term loss of commissions and other revenues are expected to amount to some Pta250bn.

To take an example, Spanish banks' computer systems currently work in whole pesetas, with no allowance for decimal places, which will have to be incorporated when the larger currency unit is introduced.

More dauntingly, the outlook of euro membership brings with it the prospect of a sharp increase in competitive pressures – particularly in wholesale banking – and further restructuring.

Spain's financial sector has already changed radically since the late 1980s, with a stock market Big Bang, a series of bank mergers and takeovers, and the cramping of once-comfortable margins.

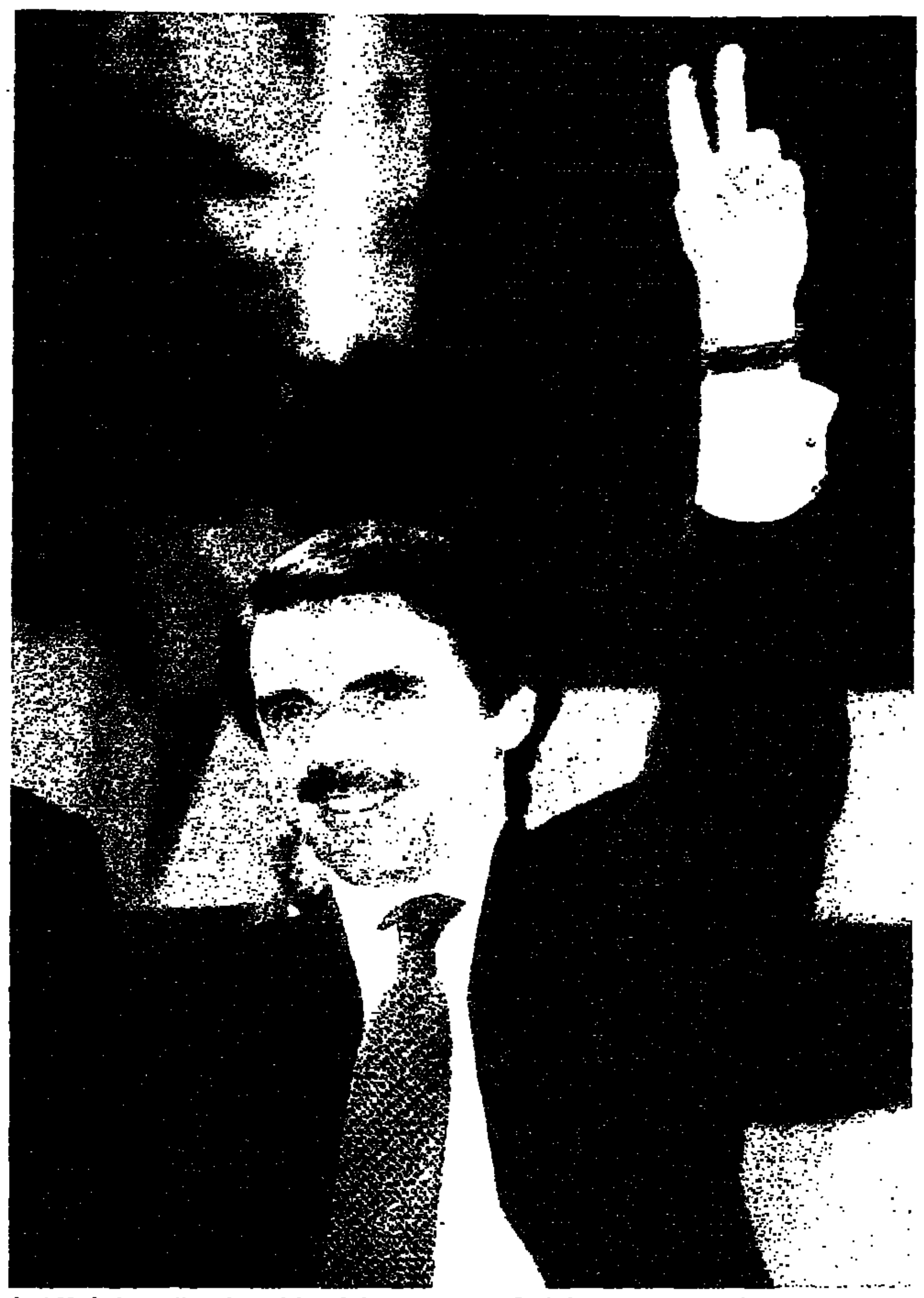
The banking industry has become concentrated to a greater degree than in any of the EU's other larger member countries.

In terms of customer funds, banks control just over half the Spanish market alongside savings institutions and co-operatives. Of this share, as of June 30, four big groups accounted for 81 per cent.

The concentration process can be expected to continue – if not among the top banks, at least among the smaller commercial banks and savings banks. The coming months are also expected to see a strengthening of international alliances, including cross-shareholdings.

One bank chairman offered an apocalyptic vision of what was in store – "an earthquake, like a Disney film with birds and animals scattering about."

*from Cervantes' *The Ingenious Gentleman, Don Quixote de la Mancha*. Trans. S.Putnam



José María Aznar: the prime minister is intent on getting Spain into Emu on its merits *Reuter*

Government growth forecasts (per cent)

	1994	1995	1996*	1997*
Gross domestic product (per cent growth)	2.1	2.8	2.3	3.0
Private consumption (per cent growth)	0.9	1.5	2.1	2.7
Public consumption	-0.3	1.3	0.3	-0.3
Fixed capital formation	1.8	8.2	3.1	6.5
Exports	16.7	8.2	7.5	8.5
Imports	11.4	8.8	7.3	8.7
Consumer prices Dec-Dec	4.3	4.3	3.4	2.63

*forecast. Source: Ministry of Economy and Finance

Balance of payments (Pta bn)

	1996*	1995*	1995	1994
Current account balance:	-41	-210	+158	-913
Trade deficit:	-1,120	-1,256	-2,201	-1,967
Services balance:	+1,367	+1,200	+2,215	+1,951
Gross tourist income:	1,923	1,746	3,161	2,875

*January-July. Source: Bank of Spain

■ **Savings banks:** by Tom Burns

Making money at every turn

Local utilities are proving to be the most attractive industrial investment

Short of breathing, virtually everything one does in Barcelona, be it making a telephone call, switching on a light or having a hot shower, makes money for La Caixa. The Barcelona-based savings bank is a leading shareholder of all the essential utilities, including the national telephone, electricity and natural gas companies, as well as of the city's water company.

It is also impossible to drive a car and not contribute to La Caixa's profits. The savings bank holds strong equity stakes in the toll motorways that approach Barcelona, in Repsol, the main service station network and petrol conglomerate, and also in the the city's municipal car parks.

With average total assets of Pta8,835bn ($70.6bn) last year and after tax income of Pta37.3bn in the first six months of this year, a 26.1 per cent profit increase, La Caixa is the most prominent example of the increasing visibility of the *cajas de ahorro*, the savings banks, on Spain's financial landscape.

The gap between the *cajas* and the banks has been gradually closing and the savings banks currently account for 47 per cent of total deposits in the banking system and for 39 per cent of total loans.

The trendsetter in this process has been La Caixa which, in order to widen its deposit taking base, last year bought two small bank networks: Banco Herrero which is strong in the northern province of Asturias and Banco Granada Jerez which operates in the southern Andalucia region.

The Barcelona savings bank, however, reserved until this year its quantum leap into major domestic industrials.

In a series of quick market buying sprees, it built up a five per cent stake in the Repsol conglomerate and it increased its shareholding in Telefónica, the telecoms operator, from three to five per cent.

The equity acquisitions turned La Caixa into a large industrial investor, bringing it out of its Barcelona backyard and placing it on to the centre stage of corporate Spain. In both Telefónica and Repsol, the savings bank now partners, as a core equity holder, none other than Banco Bilbao Vizacaya (BBV), the most industrially active and experienced of the big domestic banking groups

La Caixa dwarfs the other savings banks – it is bigger than the next three in the *caja* rankings' table put together – but its lead will undoubtably be followed by others in its sector. "We will have to go along this path but we will do so prudently," says Mr Manuel Pizarro executive chairman of Ibercaja, the seventh ranked savings bank which is based in Zaragoza and reported average total assets last year of Pta1,264bn.

The savings banks are being led along this path by a carrot and they are being driven by a stick. The carrot is the huge need for industrial investment; and the stick is the squeezed margins of the conventional lending business.

The investment pull is chiefly the result of the retreat that the new Popular party government has initiated from public works and enterprises.

The government has in principle adopted a wide-ranging privatisation plan and it has given a clear political signal that it wants a partnership with the private sector for big infrastructure investments to replace the big public spending programmes that characterised the years when the socialists were in power.

Mr Pizarro foresees Ibercaja involvement in, for example, a high speed train link between Madrid and Barcelona that will pass through Zaragoza. The savings bank could also take a share in local electricity generators and in water and waste-management companies.

The emphasis is that the industrial investments should be focused towards utilities and, above all, should be firmly based in the home region of the *caja*.

The shift towards industrial investments make sound sense at a time when margins are under pressure. This is exactly what has occurred in the private banking sector where the so-called German banking model of financial institutions with assertive industrial portfolios appears to be making a comeback.

The broad picture of the private banking sector over the past four years is that competition has prompted a sharp decrease in the differential margin between loans and deposits; that cost control is unable to avert the gradual erosion of efficiency; and that profitability, measured in terms of return on assets and on equity, has deteriorated.

So far, the savings banks have been less squeezed than the private banks and most *cajas* have been able to post respectable increases in their net interest margins thanks to their undoubted expertise in capturing deposits among the middle and lower segments of the banking client base. But there is nothing to suppose that the pressure on margins that has afflicted the private banks will not cause a similar concern among the savings banks.

The investment blueprint that Ibercaja's chairman is working on is almost certainly applicable to all *cajas*.

As the owner of stockbroking firm and a former head of the Madrid stock exchange, Mr Pizarro is well versed in the business of raising capital and, as a close friend of Mr José Maria Aznar, the prime minister, and of the government's economic team, he is well aware of the policy shift towards private sector financing.

Although under regulations that were introduced in the late 1980s the *cajas* are no longer limited to operations within their own region, their home standing remains their prime strength and also, to a certain extent, their burden.

The obvious prime investment for a savings bank revolves around the utilities and services sectors of its local area. This is because there are now clear financing opportunities in what is very familiar territory – every self-respecting savings bank would like to be as omnipresent as is La Caixa in Barcelona – and it is also because under the complex ownership status of the *cajas*, local institutions and local politicians have a key say in investment decisions.

La Caixa in Madrid: the mother of all Spanish savings banks with the logo designed by the renowned Catalan artist Joan Miró

■ **Privatisation:** by David White

An ideological approach

It is unclear just how far the government's ambitions and plans will go

Spanish government ministers have taken to talking a lot recently of the need for "realism" about their much-vaunted privatisation programme.

Plans drawn up by the Popular party administration, approaching privatisation with an ideological commitment until now absent in Spain, are the nearest the country has come to an overall strategy for reducing state holdings. But they do not amount to a wholesale sell-off.

"It won't be aggressive, massive or rushed," Mr Josep Piqué, who as industry minister is responsible for most of the government's corporate interests, has warned.

Nonetheless, investment banks are jockeying for the business in prospect from plans which over the next four years could involve the sale of shareholdings with a market value of Pta3,000bn.

This would be roughly half as much again as the privatisations carried out by the previous Socialist administration – some Pta1,700bn worth at today's prices – from 1986 up to its general election defeat in March.

The new programme is set to get under way by the end of the year. High on the list is the sale, through an offering aimed at institutional investors, of the state's 3.8 minority share in Gas Natural. The company's main shareholder, the Repsol oil group, in which the state still holds 10 per cent, is itself an early candidate on the list.

A remaining 9 per cent which the state owns in the wholesale gas operator Enagas is also set to be sold to Gas Natural, which already has the other 91 per cent. In a further step to tidy up minority holdings, the government has decided to sell its 24 per cent direct stake in TISA, the overseas arm of the Telefónica group, to the parent company. A further offering of shares in Telefónica, in which the state's interest has been reduced to 21 per cent, is expected in the first half of next year.

The government's 1997 budget contains a scaled-down provision for privatisation revenues of Pta450bn – roughly the value of its Telefónica stake alone. But this is deliberately modest. Mr Piqué has predicted an annual total of about Pta600bn. The pace will depend on market conditions, competition from the long list of privatisations planned by other European countries, and the readiness of the companies themselves.

The government put a spanner in the works of its own programme in July when it imposed higher tobacco taxes, hitting the profitability and share price of the 52 per cent state-controlled Tabacalera group, and therefore the potential revenues from its privatisation, which looks like being delayed as a result.

Spain has accumulated its nationalised sector from a variety of sources: early 20th century protectionist policies, interventionism and reliance on state initiative in the Franco regime, and corporate casualties since the 1960s.

Main privatisation candidates*

Ready to go, pending decision on timing:	
Telefónica	Telecommunications (21 per cent)
Repsol	Oil and chemicals (10 per cent)
Argentaria	Banking (25 per cent)
Tabacalera	Tobacco (52 per cent)
Gas Natural	Gas (4 per cent)
Trasmediterránea	Ferries (95 per cent)
Aldeasa	Duty-free (80 per cent)
Auxini	Building (60 per cent)
Awaiting deregulation measures:	
Endesa	Electricity (67 per cent)
Due for privatisation by 2000:	
Iberia	Airline (99.8 per cent)
Aviaco	Airline (99.9 per cent)
Inespal	Aluminium (98 per cent)
Indra Sistemas	Electronics (63 per cent)
CASA	Aerospace (99 per cent)
Ence	Paper pulp (51 per cent)
Babcock & Wilcox Española	Capital goods (100 per cent)
Musini	Insurance (100 per cent)

*Figures in brackets are current state shareholdings

Since the mid-1980s, some 80 companies have been sold off, not including those of the Rumasa group following its expropriation in 1983. Companies such as Seat, the Barcelona-based car company now part of Volkswagen, were transferred with large amounts of state aid. The process accelerated with share offerings in the Endesa electricity group, Repsol, Telefónica and Argentaria.

These, because of their size, will continue to provide the backbone of the new government's programme. This lays down four categories of state interests.

First come the prime candidates for early privatisation, successful companies operating in competitive conditions, in the main instances already traded on the stock market.

The Endesa group, two-thirds state-owned, belongs to a second category awaiting deregulation measures. The government argues that it cannot be further privatised until a new legal framework is set for the electricity industry, and that in any case the state holding – worth more than Pta1,300bn – cannot be sold in one go.

A third and larger group, including the Iberia airline, involves companies requiring "consolidation" before they can be privatised. This covers most of the interests, other than Endesa, that the previous government put under the state holding company Téneo. These were seen as being the more viable parts of the old Instituto Nacional de Industria (INI). The new government decided that the Téneo organisation should go the way of INI and be scrapped.

Lastly come the lame ducks, such as the loss-making shipyards, which could become privatisation candidates later on. The government has already held contacts on the future of the reorganised steel group CSI. This group of companies, largely depending on subsidies agreed with Brussels, come under a separate organisation at the industry ministry, the State Industrial Agency (AIE). In the interests of symmetry, the industry ministry and the economy ministry now have two other parallel holding units for the various interests they own – SEPI and SEPP. A consultative council of academics has been created to advise on privatisations, chaired by Mr Luis Gámir, a former trade minister.

It remains unclear, however, how far the government's privatising ambitions go, or how drastic it is prepared to be in tackling loss-making industries such as coalmining. Mr José María Aznar, the prime minister, says some sectors will remain off limits for privatisation, specifically mentioning defence. The principal defence company Santa Bárbara is in any event hardly an appetising prize these days: last year its losses were four times its sales.

Mr Aznar insists that there will be "a grand overhaul of the Spanish public sector." But he adds: "There are areas in which prudence calls for going slowly."

■ The banks and Europe: by Tom Burns

Emu and euro cast a shadow

Financial institutions are moving towards strong industrial investment

All banks in the European Union are gauging the implications of the economic and monetary union (Emu) and the euro on their industry. The "New Europe" arguably represents greater challenges to business in Spain than in other large EU economies.

What is specific to the industry in Spain is that the single currency will usher in a new economic environment based on much lower, and permanently lower, interest rates and on permanently lower inflation. It is an environment that changes the goal posts on the Spanish banking pitch.

The significance of this is all the greater because the domestic banks face a period of change at a time when they have just emerged from a prolonged process of adjustment that has already had a strong impact on their profitability.

None of the four big domestic banking groups – Argentaria, Banco Bilbao Vizcaya (BBV), Banco Central Hispano (BCH) and Santander – existed in its present shape scarcely 10 years ago. Argentaria, now just 25 per cent state-owned and awaiting its full privatisation, was created out of a pool of government banks; BBV and BCH are both the result of mergers; and Santander overnight became the biggest banking group two and a half years ago when it acquired the troubled Banco Español de Crédito, Banesto.

Banking concentration was accompanied by deregulatory moves and by the breakdown of a cosy cartel that had formerly bound the institutions together. The sharply increased competition that ensued has inevitably penalised margins.

According to the AEB, the association of domestic banks, the average differential between loans and deposits in the banking sector has fallen from 7.39 per cent to 4.88 per cent between 1991 and 1995 and the intermediation margin as a percentage of average total assets is forecast to be 2.25 per cent this year, down from 2.41 per cent last year and from 3.35 per cent in 1991.

Despite a determined effort to control costs – total bank operational costs as a percentage of average total assets fell from 2.73 per cent in 1992 to 2.19 per cent last year – the margin squeeze in the core banking business has been such that the sector's profitability has significantly declined. The sea change in Spanish banking can best be illustrated by the fall in net income return on average equity (ROE) from the 15.52 per cent that was posted by the sector in 1991 to last year's level of 9.78 per cent.

It is in this context that new adjustments triggered by Emu and by the challenges of the economic environment of a "New Europe" cause concern to the sector. As they reel from competitive pressure, the Spanish banks now face more of the same without being able to recover their breath.

Mr Jorge Hay, the head of BCH's highly respected research unit, believes that the Emu framework – price transparency, increased number of competitors and financial market globalisation – points inexorably at still narrower margins and that the only reasonable response by the sector is higher levels of efficiency and productivity.

One moot point is whether the "New Europe" will prompt new banking mergers. The logic of this is that a greater critical mass, along with cost rationalisation, could be the shortest and surest route to upgrading efficiency and productivity.

The stock answer in Spain is that banking concentration has already occurred in the past decade and that it cannot be taken any further. In Spain the top five banks – Argentaria, BBV, BCH, Santander and Banco Popular which is the smallest but the most profitable of the five – already control 50 per cent of total bank deposits, a percentage that is similar to that in France. There is arguably more call for concentration in Germany, Italy and the UK where the top five domestic banks in each case account, respectively for 25 per cent, 43 per cent and 35 per cent of national bank deposits.

But, to some analysts, the question remains an open one because the trend in Spanish banking suggests an increasing polarisation of the sector between the Santander group and the BBV group, for both institutions – in terms of average total assets, of incomes and of operating margins – have a clear lead over the other three banking groups in the top five.

At the six-month stage this year, Santander and BBV, which both showed strong earnings potential, accounted for 55.5 per cent of the combined net profits of the top five. A year earlier the net profits posted by Santander and BBV had represented 51.34 per cent of the top five total.

Main bank groups (Pta bn)

	Assets (30/6/96)	Assets (end-1995)	Net profit (1995)
Grupo Santander	18,096	16,465	107.9
Banco Bilbao Vizcaya	14,955	14,135	105.0
Argentaria	11,788	13,059	73.6
Banco Central Hispano	11,522	11,217	20.2
Banco Popular	3,448	3,278	74.1
Bankinter	1,671	1,666	15.3
Banco Sabadell	1,593	1,560	16.4

Source: AEB

Domestic banks are facing a period of change Lydia van der Meer

Should the polarisation trend continue an acquisition move by BBV, which has fully digested the 1989 merger that created the group, cannot be ruled out. There has also been speculation that Argentaria and Banco Popular could merge in order to contest the Santander/BBV duopoly.

The Emu framework does not however solely mean a greater pressure on costs and margins. There is an obvious upside to the euro in the form of a far more stable lending climate, cheaper fixed assets and, particularly, greater profitability from industrial portfolios.

In Spain, there is a perceptible switch among financial institutions towards strong industrial investment and the move has been most noticeable as part and parcel of the privatisation and liberalisation programmes set in motion by the government.

The leading banks have been tapped to become core shareholders in industrial and service companies where the state is reducing its participation.

At a time when traditional banking margins are being squeezed and industrial portfolios look set to earn good revenues there are compelling reasons for adopting the "German" model as opposed to the "Anglo-Saxon" pure banking formula.

This is clearly what moved Santander, which had consistently pulled out of industry in the past years in order to concentrate on a diversified core banking business, into a 180 degree strategic turn that was marked earlier this year by the purchase of three per cent of Endesa, the big state-controlled electrical utility.

Santander says that it has not suddenly been converted to the virtues of a large industrial portfolio and that it invested in Endesa solely because it made sound financial and banking sense.

Few would contest this assertion because Endesa offers unquestionable shareholder value and, in addition, the government's plans to sell off the 66 per cent stake it holds in the company provides Santander's merchant banking unit with considerable business opportunities.

However Santander is also being courted by the government as a core shareholder of a planned second telephone operator and further business possibilities lie ahead as the state seeks to encourage private sector investment in infrastructure financing.

BBV, which has traditionally retained a strong industrial portfolio and has recently built up strong positions in Telefónica and in the energy conglomerate Repsol, clearly believes that such investments will be invaluable assets in the "New Europe".

PROFILE Banco Sabadell

Reshaping a legend

The first to buy a foreign network, it is committed to the high street retail sector

Highly capitalised, small and profitable, Banco Sabadell, has been a byword for low profile and caution in Spanish banking.

This legend may now be over.

In a development last June which caused surprise, Sabadell emerged as the sixth largest domestic banking group by deposits and assets following a bold decision to acquire Banco NatWest, the UK bank's retail and commercial subsidiary in Spain.

The takeover boosted the group's asset base from Pta1,592bn (£7.9bn) to Pta1,992bn and put it ahead of the Bankinter, one of Spanish banking's more aggressive participants, as the largest of the medium-sized institutions.

Sabadell has not only become the first domestic bank to purchase a foreign bank in Spain – the norm was that foreign banks bought domestic networks – but it has also taken the costly step of creating a new bank logo.

Banco Sabadell

Banco NatWest's 116 branches were relaunched this month under the name of Solbank.

Sabadell also bought, Banco de Asturias, which was 90 per cent owned by the UK bank's Spanish subsidiary.

However, Asturias, which has 91 branches that are overwhelmingly located in the northern Asturias region, will retain its name.

All told the expanded Sabadell group raised its branch network by more than 50 per cent to 627 units and signalled a strong commitment to the high street retail sector of the industry.

The decisions appear at first sight to be at odds with the bank's tradition.

Founded in 1888 by local businesspeople in the industrial town of Sabadell, close to Barcelona, it was not until the 1970s that it opened branches in Barcelona, Madrid and London.

This step-by-step expansion has been weighted towards the Mediterranean coast, between Barcelona and Valencia, where there is a high concentration of small and medium businesses and these form the backbone of the Sabadell's client profile.

Unlisted and controlled by some 37,000 shareholders, none of whom owns more than 0.07 per cent of its equity, Sabadell has consistently maintained a high shareholder value.

In addition, it has quietly devoted itself to bread-and-butter banking activities and has built up a solid reputation in niches such as as correspondent banking, custody services and the financing of trade.

"When we began negotiating with NatWest we were not interested in buying a market quota," says Ms Anna Birulés, who is one of the seven senior Sabadell executives that form the board of the new Solbank. "We wanted quality and we want a good fit."

In the event, Sabadell drove a hard bargain for it offered NatWest a quick exit route from Spain – Mr Michael Sharp, its chief executive, termed it "an elegant solution" – that was in line with the UK bank's strategic withdrawal elsewhere in Europe.

Sabadell paid Pta23.7bn (£123m) for 80 per cent of Banco NatWest, a sum which represented a 1.3 multiple of its net asset value and the parent bank took a £25m loss on the sale after a restatement of £50m of goodwill that had been previously written off.

It could also have bought quality. Sabadell admired Banco NatWest's risk control, its client service and its strong marketing culture and it also liked the fact that it had turned the corner into profits post net income of Pta3bn in 1995 after running up cumulative losses of more than twice that over the previous three years. At the first six months stage this year Banco Natwest and Asturias posted net profits of Pta2.2bn.

The fit is twofold. With the newly-named Solbank, the Sabadell group now has a very respectable presence in Madrid and the opportunity to consolidate along the Mediterranean and in the south of Spain.

It will also be able to diversify, through Solbank and Asturias, more strongly into conventional retail banking.

Does Sabadell have any more surprises in its secretive and very deep pockets? Not according to Ms Birulés. "We are quite content to be the sixth largest banking group," she says. And any thought of raising capital on the stock market is considered heresy at Sabadell, much though the markets would like it.

Tom Burns

IV SPANISH BANKING AND FINANCE

■ **Latin America:** by David White

In the quest for fabulous wealth

The main groups need more fertile ground than their own competitive market at home

The legend of El Dorado has been revived by Spanish banks in a determined search for growth markets in Latin America. In the last two years, they have invested some $2bn in the effort. A prominent presence has been established in countries such as Chile, Peru and Colombia more than 170 years after they broke from the Spanish empire. "It's a question of being in the right place at the right time," says Mr Gonzalo Terreros, general manager for international co-ordination at Banco Bilbao Vizcaya, which this month agreed the first big purchase in Argentina.

The main Spanish groups see no option but to seek more fertile ground than their own increasingly competitive market with its shrinking margins. In Spanish-speaking countries of Latin America they find margins sometimes three or four times those of Spain and have been able to make big inroads in the growing pension fund business.

Only medium-sized by international standards, they loom big on the Latin American banking scale. They see themselves as being able to export skills there in a way they could not in the European Union. Like others, they burnt their fingers with Latin American loans in the 1980s. But they are now less wary about the region than their US or European counterparts.

"The situation is completely distinct," says Mr Emilio Novela, a general manger at Banco Central Hispano. "It's not the same thing lending money for building a motorway as having a shareholding."

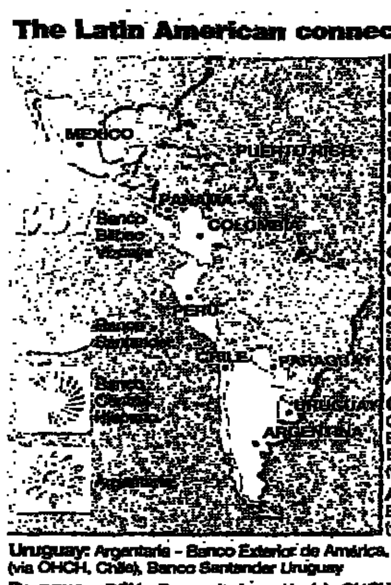
Banks have followed the same path as Spanish telecommunications, energy and water companies. Between 1990 and 1994 Spain was the largest European investor in Latin America and the Caribbean region, according to the Madrid-based Institute for European-Latin American Relations (Irela). Some 60 per cent of Spanish direct investment flows outside industrialised countries went to the region.

The most aggressive approach among the Spanish banks is that of Banco Santander, which has sought outright control of local banks and placed them under its own name. Its investments to date have a book value of some $1.56bn.

The Americas, including the US, where Santander has a 10 per cent stake in First Union, are reckoned to account for some 18 per cent of the group's basic banking business, much more than its interests elsewhere in Europe. Its biggest Latin American venture is in Chile, through the merger of its operations there with Banco Osorno, announced in April. Through an investment of close to $500m the Spanish bank assumed 75 per cent control of the joint unit, with 240 branches and assets of more than $7.9bn.

In Peru, it has merged the former Banco Interandino and Banco Mercantil, both bought last year after it lost to its Spanish rival BBV in the privatisation tender for Banco Continental, the third-ranking Peruvian bank. Santander took over

The Latin American connection



Mexico: BBV - Probursa, BCH (10% Grupo Bital, Banco Internacional)
Puerto Rico: BS - Banco Santander Puerto Rico, BBV-Puerto Rico, BCH-Central Hispano Internacional
Panama: BBV - Panama, Argentaria - BEX Panama
Colombia: BBV - Banco Ganadero
Peru: BBV - Banco Continental, BS - Banco Santander Peru, BCH Banco del Sur (via OHCH, Chile), Argentaria 20% Exbandes
Chile: BS - Banco Santander Chile (inc. former Osorno), BCH - Banco O'Higgins, Banco de Santiago (via OHCH joint venture)
Argentina: BCH - Banco Tornquist (via OHCH, Chile)
Uruguay: Argentaria - Banco Exterior de América, BCH - Centro Hispano Banco (via OHCH, Chile), Banco Santander Uruguay
Paraguay: BCH - Banco de Asunción (via OHCH, Chile)

Central Hispano's main retail banking subsidiary in Puerto Rico earlier this year and appeared set to buy Banco de Venezuela, the number two Venezuelan bank in terms of deposits, when the Caracas authorities postponed the auction of the bank at the last moment in August.

BBV also has investments worth over $1bn, built up as part of a new group strategy launched at the beginning of last year. "We decided to start from scratch," says the bank's Mr Terreros. Its aim was to project itself as a universal bank, taking a strong position in its chosen markets but working in partnerships to avoid the pitfalls waiting for newcomers. It has not necessarily sought majority shareholdings but has insisted on management control of its operations. Its policy, Mr Terreros says, is "not to be a spare wheel but a driving wheel."

Its heaviest commitment is in Mexico, where rivals say it has paid a high price for its place. Last year, faced with the option of withdrawing from the troubled Mexican Probursa group, where it had built up a minority holding since 1991, and committing fresh investment, it embarked on a $350m plan which gave it 70 per cent voting control. The plan included a deal with the Mexican authorities to take over a third of Probursa's loan portfolio and reduce its risk exposure. With a total network of about 300 branches, the Mexican operation is expected to make a small profit this year.

Last year's Mexico move followed the takeover of Banco Continental in Peru. This year BBV has boosted its interests through a 40 per cent stake in Banco Ganadero, the top-ranking Colombian bank, bought for $328m, and most recently a 30 per cent holding in Banco Francés del Río de la Plata, Argentina's number three private bank, under a deal worth $350m.

Banco Central Hispano, with about $500m invested in the region, has placed its bets strongly on partnerships, calculating that in retail banking that is the only way of succeeding in the region. It has focused mainly on a joint holding venture with the powerful Luksic family group in Chile, called O'Higgins-Central Hispano (OHCH). Through this company, in which the Chilean partner holds management responsibility, it controls Banco de Santiago, now being merged with Banco O'Higgins to form the largest Chilean banking group, with combined assets of $11.3bn.

The Chilean holding venture, seen as a hub for interests in the southern part of South America, also controls Banco del Sur in Peru, merged with another Peruvian bank, Banco del Libertador.

In Mexico, BCH and its Portuguese partner bank Banco Comercial Português share a 20 per cent stake in Grupo Bital, formerly Prime Internacional, which in turn controls Banco Internacional, with more than 700 branches.

Argentaria has been reorganising the interests which its Banco Exterior subsidiary, once the official Spanish export bank, used to have in the region. It has merged its interests in the Mercosur countries and Chile into a new Montevideo-based unit, Banco Exterior de América.

PROFILE **Argentaria**

Francisco González: he aims for more flexible management

The third time round

He was chosen with the brief to complete the bank's privatisation

Mr Francisco González has just embarked on his third career. Having started work in the computer industry, he then set up a highly successful stockbroking business.

He has now joined the ranks of Spain's big bank chairmen as the government-appointed head of the Argentaria group.

His previous company had 130 employees.

But at Argentaria, he is in charge of more than 16,000. The change, he says, has been "a fascinating experience."

His nomination in May was the first corporate appointment made by the new centre-right government – and the signal that it had made up its mind to change the top jobs throughout most of the state and semi-state sector, irrespective of the incumbent chairman's standing.

This meant ousting Mr Francisco Luzón, who had headed Argentaria since its formation five years ago in a merger of state-controlled banking interests, and had taken it through three stages of privatisation. In the process, the government's holding was reduced to 25 per cent.

The two men share a reputation for working to a punishing schedule. Mr González, a fit 51, is a man of abstemious habits, a non-drinker and non-smoker who plays golf at the weekend but otherwise spends little time away from work. At Argentaria's headquarters in central Madrid, most unusually for a Spanish office, there are no ashtrays.

He was hand-picked for the post by Mr Rodrigo Rato, the economy and finance minister, with the brief to complete the bank's privatisation and maintain it as an independent group.

Just three months before, Mr González had sold the broker-dealer, corporate finance and asset management businesses of FG, the company he founded and still controlled along with other managers, to Merrill Lynch for just under $30m. FG – named from his initials – had become the largest Spanish brokerage not controlled by a banking group.

After the deal, under which he was to become a senior adviser to Merrill Lynch, Mr González was thinking about another business venture in which to invest his capital. These plans, he says, are now on ice.

The timing of Argentaria's share sale has still to be decided, he says, emphasising that it will need careful preparation. First-half net profits fell by almost 11 per cent, showing up how much the bank had been relying on non-recurrent earnings.

Mr González has reorganised the group into business areas, aiming to make make it work "like a single entity from an operative point view" and taking it further away from Mr Luzón's original idea of a "federated bank".

Its different units are to remain juridically separate, but Mr González aims for the more flexible management of resources and for cost savings across the group.

With his computer background, he also wants to place Argentaria in the van of technological change in Spanish banking.

Mr González says that, unlike his predecessor, he believes in delegating responsibilities.

He has created a new post of managing director, bringing in Mr Ramón Bustamante from the Banesto group.

"The whole thing is having a good team," he says. "I don't believe in the style of a chairman having to do everything.

"I prefer people to think for themselves."

David White

■ **Futures and options:** by Tom Burns

A market more than holding its own

Meff is hopeful it can withstand the challenge of Liffe in an Emu environment

Meff, Spain's financial futures and options market, emerged as one of the fastest growing derivatives markets in the world two years ago. It held its newly-won ground in difficult conditions last year and looks in fine fettle this year.

The sixty-four billion peseta question is whether Meff will survive the changed economic and financial environment that will be ushered in by the economic and monetary union (Emu).

To a great extent 1995 was a test year because the derivatives business in Spain had surpassed all expectations the previous year. In 1994, volume at Meff Renta Variable (Meff RV), which is based in Madrid and trades stock index futures and options, and Meff Renta Fija (Meff RF), which is based in Barcelona and lists short-term money market and bond contracts, increased by 139.7 per cent and by 142.2 per cent respectively.

The surge in business suggested that Spain's futures and options markets had arrived on the sector's global map. Meff Holding, the corporate umbrella for the Madrid equity and the Barcelona fixed income units, posted a combined total of 55.1m contracts in 1994 and both Meff RV and Meff RF were comfortably in the top 20 in the league table of international derivatives exchanges.

Last year was a testing one because the downward trend in interest rates and the bullish stockmarket reduced hedging requirements and pulled down business derivatives volume in most exchanges. In the circumstances, therefore, the 7.9 per cent volume increase posted by Meff holding as contracts exceeded 56m was viewed as a significant endorsement of the sustained earnings potential of the Spanish markets.

Meff Holding chairman Mr Josep Manuel Basañez told shareholders he was "particularly pleased to highlight the positive aspects" of the growth recorded by the Spanish exchanges. Meff's reputation as a front edge technology innovator was steadily gaining ground and its systems were chosen by Portugal's futures and options market.

This confident picture looks as if it continues to be in place this year. Meff Holding posted a 13.5 increase increase in contract volume between January and August over the same period in 1995.

It is an open question, however, whether this track record is enough to see Spain's derivatives markets through to continued success in a euro framework. "There is no consensus about what will happen with Monetary Union," says Mr Pablo de Diego, a board member of Meff Holding. "In a worse case scenario Liffe [London International Financial Futures Exchange] could take all the business."

But the strong feeling among Meff directors, shareholders and clients is that, albeit in a possibly changed form, the Spanish derivatives markets are here to stay. Meff may be dwarfed by Liffe but it has met the London exchange's challenge before and it emerged successfully from the scrap.

Meff RF in Barcelona coped with a Liffe launch of a contract on 10-year Spanish bonds by implementing strong cuts in commissions and by demanding, and getting, increased support from its members. The market makers pumped in liquidity and narrowed the spreads while Meff built up client loyalty by delivering effective clearing, high quality service and attractive pricings.

The upshot was that the reference for the 10-year *bono* stayed in Spain. The victory, however, does not in itself assure Meff a future. Conventional theory has it that Emu and the euro, by killing off sovereign bonds, will break specialist and peripheral markets; with the loss of its star *bono* product, Barcelona's derivatives exchange could be forced to wind up its business.

In practise, Meff RF shows every intention of confounding those who predict its eventual demise. In June, Barcelona's derivatives market entered the cross market bond spread trade by designing contracts called Diff that are based on the price differential between long-term government bond futures contracts of Germany, France and Italy with respect to the 10-year notional *bono* that it trades.

The essence of the product is that it eliminates the need to deal in two different futures contracts simultaneously in order to obtain a spread position and that it therefore both cheapens the contract and eliminates execution risk. Meff claims that thanks to the price sensitivity adjustment that is achieved by trading the *bono*, the Diff contract is converted from a price spread into a yield differential spread.

Active Diff promotion by Meff RF's market makers, who emphasised the hedging and arbitrage possibilities of the new product, ensured that the volume of Diff contracts increased rapidly as soon as they were launched to more than 2,000 contracts a day. While it is still early days for the product the Barcelona exchange expects a steady increase in its business volume.

Innovation is one factor that looks set to nurture Meff's continued good health in a single currency environment. Client loyalty is another. "There are a lot of institutions who have have operated profitably, efficiently and comfortably with Meff for some time now," says Mr Antonio García Rebollar, chief executive of Madrid securities house Renta 4. "They are going to be providing the support it needs to keep it going."

Looking ahead to the single currency environment with all the imponderables that such forecasting involves, there is nothing to suggest that Meff technology and expertise will be unable to tap new clients among the domestic institutional funds with new products in the swaps and the over-the-counter niches of the derivatives industry.

■ **Stock market:** by Tom Burns

Rising to new heights

The Popular government and tax reforms have stimulated Madrid's Bolsa

The general index of Madrid's Bolsa hit an historic high in June, corrected itself less than did other peripheral stock exchanges in the summer and is now back at record levels. It could, at last, be time to begin taking the Bolsa with far greater seriousness than in the past.

The overriding reason for a new perspective is that the pro-market sentiment generated by Mr José María Aznar's centre-right government has rapidly delivered two technical reasons for reassessing views about the Bolsa: bigger trading volumes, which means greater domestic support and more liquidity; and new issues, which means more opportunities and a wholly changed Bolsa profile.

The formation of a Popular party government in the spring was the best thing that could possibly have happened to the Bolsa. The new economic team understands that the stock exchange is a vital ingredient of growth in a way that the previous Socialist party government, beset as it was by ideological mind warps, was incapable of comprehending during its nearly 14 years in power.

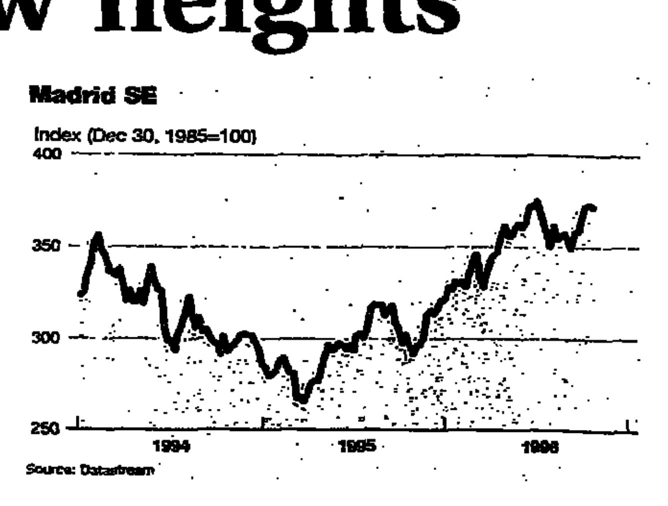
Within weeks of taking office, the government radically altered the tax treatment of Bolsa investors by abolishing tax on the first Pta200,000(£1,000) of capital gains obtained in a fiscal year from the stock market and by instituting a single flat rate 20 per cent tax on all subsequent Bolsa income. Previously Bolsa earnings were taxed as regular income and liable to the top marginal tax rate of 56 per cent.

The Pta200,000 level tax break is a considerable benefit for a wide segment of small Bolsa investors who have some Pta2m invested in the equity markets and who, under the previous fiscal guidelines, were liable to an average tax of some 35 per cent on their Bolsa earnings.

The Popular party government does not talk about people's capitalism in the way that conservative governments under Mrs Margaret Thatcher did in the UK during the 1980s but the effect of its Bolsa legislation could be a similar one.

Brokers believe the investor-friendly tax guidelines could double the numbers of small savers playing the equity markets.

Madrid SE



Source: Datastream

The disposal by the previous Socialist party government of 10 per cent of Telefónica a year ago attracted around 550,000 individual small investors to the retail tranche. The big domestic banks, who have their finger on the pulse of the retail trade, believe that with the new capital gains tax rulings a million small savers could buy into a new Telefónica placement.

The retail trade traditionally occupies the centre stage of the domestic tranche in all Spanish listings and, if the domestic banks are right, it will continue to have a dominant weighting. In addition the domestic institutional funds are also growing fast and they, too, will provide considerable support for the market.

The broad picture is that there has been a recent and radical switch from bank deposits to investment funds and that this change in the structure of domestic savings is being fuelled by the Popular party government. Nevertheless, only a paltry proportion, some 2.5 per cent, of the funds under management is routed towards equity investments.

For the past two years, at least, Bolsa insiders have been predicting a surge in stock market investment thanks to the growth in investment funds. Why should they be right now when they were so manifestly wrong in the past?

One reason why the insiders could be on track this time around is that the fixed income-equities playing pitch has now been levelled. An investment culture had for too long been formed by benchmark lending rates in excess of 15 per cent and by a public sector borrowing requirement that multiplied year after year. This is no longer the case.

The government's commitment to reducing the deficit, the low interest rate and the low inflation rate environment and, most importantly, the commitment to continue budget rectitude under the framework of the economic and monetary union (Emu) convergence, makes the domestic equity market more attractive than it has ever been in the past.

This claim is not far fetched. The proof lies in the pudding and in less than six months two new listings have driven home the point that the Bolsa is undergoing a long overdue sea-change.

The first listing was a global initial public offering by Sol-Meliá in June that raised $275m in fresh capital and put 40 per cent of the Majorca-based, family-owned hotel group on the Madrid market. The second, which is scheduled for next month, will put 45 per cent of Telepizza, the leader of Spain's home-delivery pizza segment, in the hands of domestic and international investors.

The eye-catching feature of the IPO by Sol-Meliá, which is ranked 17th among the world's hotel groups, was that it marked the first time that a family group had gone to the equity market in order to raise capital. Telepizza's IPO also breaks new ground because the listing of a small cap growth company constitutes a novelty on the Bolsa.

Both listings, moreover, brought new sectors on to the Madrid market. Strange, as it may seem for an economy that earns more than 10 per cent of its GDP from tourism, there was not a single bona fide leisure group listed on the Bolsa until Sol-Meliá decided to tap investors. And despite the 30 per cent annual growth in the Spanish fast food market over the past four years, Telepizza, which has has a market capitalisation in the Pta23bn-Pta27.3bn range, is the first company in this sector to be listed.

Sol-Meliá and Telepizza have set a pace that was unknown before on the Bolsa. Within the next six months there could be between 4-5 more small-to-medium capitalisation listings and there are a further 10 companies, according to Bolsa insiders, seriously considering IPOs. In the past, one new listing a year on the Bolsa was considered a good average.

LOGISTICS

Many in the logistics sector acknowledge the need to improve the quality and range of services which they provide. But they point also to the need for their customers to understand the importance of logistics and to deal with it at a senior level. Charles Batchelor reports

Industry in transition


Robin MacFarlane

Logistics is an industry in transition. At company level, distribution and logistics managers are trying to get their message – and, if possible, themselves – into the board room. At national level, small and medium-sized companies are merging to form larger groups. And on the international stage, national suppliers are struggling to build cross-border networks.

Meeting these challenges will make for a testing time in the years ahead but the industry has already come a long way over the past 15 years. It has managed to integrate the traditional activities of haulage and warehousing – "lorries and sheds" – with a more modern arrival: information technology.

Computer systems allow a company to locate a product in its warehouse, to devise a delivery schedule which makes the most efficient use of its vehicles, and to track a consignment on its way to its final destination. Managing the supply chain in this way can lead to considerable savings in the amounts of inventory which must be held.

Involving outside suppliers of logistics services frequently involves very close working between the companies involved and a high degree of trust. For the past six years, Danzas, the Swiss logistics group, has operated a temperature-controlled warehouse in Schiffhausen for Kraft Jacobs Suchard, the chocolate, confectionery and foods group. Every night, between midnight and 2am, 800 orders are "picked" from the range of more than 2,000 items on the racks of pallets and are prepared for despatch the next morning.

Consignments can range in size from a postal package to a container load. Although responsibility for running the warehouse and keeping its customers satisfied has been handed over to Danzas, stock control in the warehouse is mirrored by controls at KJS and the manufacturer can check Danzas's books at any time. The contract is on a cost-plus basis, which means savings are shared between the two companies.

Danzas advances this as an example of how logistics arrangements should work but relationships are not always so smooth. A recent survey of 300 UK companies which use outside logistics suppliers, by P-E International, a consultancy, revealed significant levels of dissatisfaction with the quality of services provided.

The survey, the third in a series repeated every three years, found a decline in the quality of the service offered due to poor management and insufficient controls. Logistics suppliers were also failing to provide the strategic thinking and innovation in dealing with supply chain problems which their customers were seeking. Few were able to provide cross-border services.

One-third of the companies surveyed were dissatisfied with the general level of service provided, while three-quarters said they would seriously consider changing their logistics suppliers over the next three years.

Many in the logistics industry acknowledge the need to improve the quality and range of services which they provide. But they point also to the need for their customers to understand the importance of logistics and to deal with it at a senior level within the company.

"Logistics is cross-functional, like finance," says Mr David Quarmby, a former joint managing director of J. Sainsbury and current president of the Institute of Logistics. "All the top people in a company need to be logistics literate. No organisation can afford to have its logistics thinking done by a third party. It needs someone within the company to set the targets and build the framework," he told the Institute of Logistics annual conference.

Sainsbury and the other large supermarket groups can claim to have played a considerable role in creating the logistics sector in the UK. Their demands for improvements in deliveries, cuts in stock levels and reductions in costs brought together a previously fragmented haulage and distribution sector.

The lack of similarly powerful retailing groups in continental Europe is in part responsible for the slower developments across the Channel.

In the US, too, customer pressure, has played a role in the development of logistics although American retailers do much more in-house. In Japan, in contrast, it has been the manufacturers, in particular the automotive and electronics sectors, which have given the impetus to supply chain management, most notably through techniques such as just-in-time.

As logistics develops, so the need for larger groupings increases. Takeovers and mergers are gathering pace so that logistics suppliers can provide the range of services required, the geographical reach sought by international customers and the financial resources to develop computerised systems.

In the UK, in the past 18 months, Securicor Distribution has acquired the Russell Davies Group, a company with a large container distribution and warehouse management business. Hays, a business services group, launched a £1.2bn takeover bid for Christian Salvesen, in the summer but was beaten off by the Salvesen management.

In continental Europe, Danzas achieved a tie-up with UPS, the US parcels group, in a move which is aimed at achieving a sharing out of the two companies' light and heavy operations. This deal will leave UPS to move shipments of up to 70kg while Danzas takes on the heavier items. Trying to fit pallets into a system designed to move express parcels made no sense for UPS while Danzas was more at home operating warehouses and forklift trucks.

In Scandinavia, BTL, one of the two largest Swedish distribution companies, acquired a Finnish transport group, Huolintakeskus, in April as part of its expansion into the Russian and east European markets. BTL has concentrated on its logistics activities in recent years, pulling out of ship-owning, finance and property.

Meanwhile, P&O, the British-based shipping, construction and distribution group, has been rationalising its worldwide logistics activities. Five existing companies active in Europe, the Gulf, India and the Far East have been formed into a specialist grouping known as P&O Global Logistics.

Despite international mergers, multinational companies still complain that they are unable to place all their logistics requirements with one supplier. Part of the reason for the slow development of international networks is the cost of building operations from scratch and the uncertainty of making acquisitions. Mayne Nickless Europe has recruited a experienced German manager to look for acquisitions in that market after an unsuccessful purchase in Spain.

Much speculation centres on who will emerge the winners from the changes which are expected to take place in the logistics industry. The ability to handle information technology will be the deciding factor in success in logistics, according to Mr Alan Cole, chief executive of Transport Development Group, a UK logistics company. "Keeping up with IT will be very expensive," he forecasts. "The winners will be those with the best systems."

At present, no one can provide a truly global logistics service but the solutions are becoming clearer. Mergers, partnerships and other alliances will be needed to acquire the necessary international reach.

British logistics groups pride themselves on the degree of sophistication of the services they provide but they may lack the spread of activities to achieve international success, warns Mr Mark Bedeman, a logistics adviser to UK accountancy firm Coopers & Lybrand. "The UK is technically strong in logistics but strategically weak in intermodal skills," he says.

"British companies are very strong in one mode – road transport – but they lack air freight experience; they don't have contacts with the shipping lines; and they don't carry out freight forwarding."

Potential winners in the next century could come from a wide range of industries, including express parcels, air freighting, freight forwarding, shipping or logistics, he suggests.

IN THIS SURVEY

Production Editor:
Philip Sanders

■ **Environmental issues:** by Michael Terry

Cleaning up the pallet

Contractors are responding to political and legislative pressures

By introducing a worldwide standard for the packaging of components in transit between its suppliers and factories, office equipment manufacturer Rank Xerox claims to be saving $2m a year.

Previously, the company used 25 different types of pallet and 8,000 box sizes. It disposed of about 110 tonnes of packaging waste a day. Storage of in-bound goods was inefficient. Piece part damage was widespread and parts frequently needed repacking.

The project to rationalise the packaging, one of three introduced by the company to reduce the environmental impact of its logistics systems, is part of a growing trend by the logistics industry to respond to intensifying political and legislative pressure for environmentally sustainable industrial systems.

EC Directive 94/62 on packaging and packaging waste is an important force behind the European logistics industry's efforts to modify its transit packaging policies.

To deter the disposal of packaging waste to landfill and encourage the use of less packaging, the directive obliges each EU member state to set up self-financing systems to recover the waste for recycling, conversion into energy or incineration.

By mid-2001, member states are required to recover up to 65 per cent of packaging waste and recycle up to 45 per cent.

But, according to Mr Anders Linde, chairman of Europen, the European organisation for packaging and the environment, the choices are not simple.

He says: "Reverse logistics must strike a balance between the resources saved and the extra energy and pollution required to collect them. The directive will increase product costs by up to 5 per cent. But its harmonisation of approach will stop countries raising unfair barriers."

Mr Jacques Fonteyne, managing director of the European Recovery and Recycling Association, says: "Changes to the law are forcing the logistics industry to look at new ways of packaging and handling products. It must assess the environmental impact of disposing of its packaging."

Rank Xerox's world standard system of reusable, pallet and box modules for component supplies uses bar coding to track consignments. Reduced amounts of inner packing minimise waste.

Its environmental consultant, Kirstie McIntyre, said: "By closing the packaging loop we have eliminated the need for wasteful or harmful disposal. We have reduced the amount of new packaging that needs to be purchased. Receiving accuracy has been improved. Parts damage has been almost eliminated."

To cut packaging costs by a further $1m a year, Rank Xerox is now introducing returnable, steel and plywood totes for the delivery of finished products. It is spending $1.4m to buy 48,000 totes for a pilot operation in Europe.

Germany pre-empted the EC packaging waste directive by two years, placing the onus for national recovery of the waste on the manufacturers that package the products. Four years later, its packaging material has been cut by more than 5m tonnes a year.

Logistics contractors in Germany now need to include packaging waste recovery arrangements as part of their operation. At the in-bound logistics centre at Eisenach, in eastern Germany, which its runs for German car manufacturer Opel, logistics contractor P&O Trans European dedicates a trailer for each component supplier's packaging waste. Suppliers collect their filled trailers as a return load.

Some consignees take their suppliers' waste to the local authority depot themselves. To cover the cost, they discount their payment for the goods.

The UK government, which this month introduced a landfill levy, is completing a consultation on plans for dealing with packaging waste. The proposed self-financing system, which would be administered by industry, is expected to come on stream next year. It places responsibility on the producers who, according to their place in the packaging chain, must recover a predetermined share of the packaging waste they generate.

Companies can choose between making their own recovery and recycling arrangements or joining an industry-run scheme.

A government spokeswoman said responsibility for recovering transit packaging waste would lie with the company that applied the packaging to the product.

Recording company EMI Music also views returnable systems as a way to reduce transit packaging. It is carrying out test deliveries of CDs, tapes and records to leading shops in London's West End, using specially designed, flat-pack boxes made from toughened cardboard. It is discussing with its national carrier, express parcels operator Parceline, how the boxes can be used for deliveries to other UK customers. The challenge is to develop a fool-proof system for return of the boxes.

Although packaging is being placed higher on the logistics industry's agenda, lorries continue to make the environmental headlines.

Truck builders must now fit engines that meet the much stricter Euro II exhaust emissions standards. Truck drivers must fill up with low-sulphur diesel.

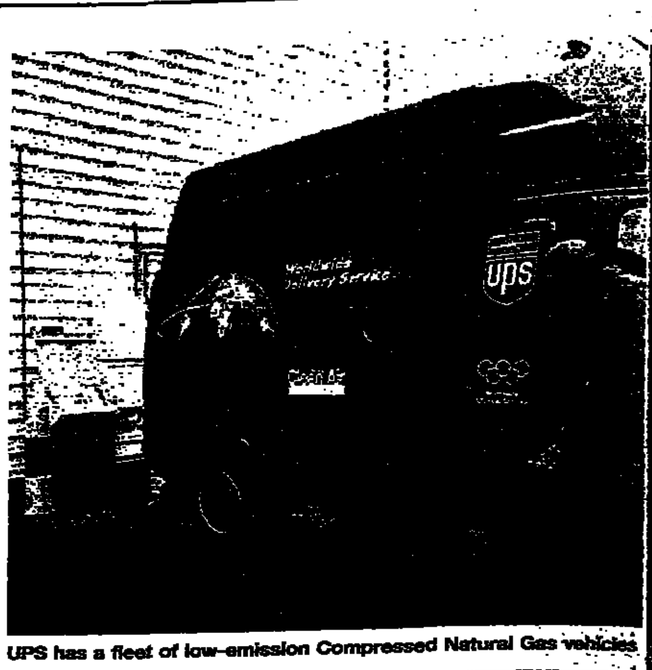
However, research by Cranfield University shows that the European companies' trend for more focused production and sourcing from further afield has doubled the average length of lorry journeys over the past 30 years, dramatically increasing the levels of pollution. And it is happening despite industry efforts to mitigate the effect of emissions through more efficient vehicle utilisation.

The Freight Transport Association, the industry's leading trade organisation in the UK, claims that the number of lorries in Britain fell by 25 per cent between 1968 and 1994 and the average volume of work by a lorry, measured in tonne-kilometres a year, has increased by 300 per cent.

It says that careful journey planning and exploitation of return journey opportunities has reduced empty running in the UK to 25 per cent. The European average is 30 per cent.

Mr Sean Plunkett, distribution director at EMI Music, speaks for industry as a whole, however, when he says: "Sound environmental practice brings major cost benefits."

For the first year of its transit packaging recycling scheme, Tesco, the UK supermarket chain, expects to report profits of £20m from the sale of waste, despite losing £1.5m a year on reusable plastic trays that go missing.



UPS has a fleet of low-emission Compressed Natural Gas vehicles

PROFILE J. Sainsbury

Spending has been scythed

For the past two years the UK's logistics companies have complained about the highly competitive nature of their markets as their profitability has fallen rapidly.

The main culprits have been the British supermarket chains which, facing their own price war, have taken a scythe to their distribution bills.

J. Sainsbury, the UK supermarket group, has been at the forefront of this drive. Mr Bob Parle, Sainsbury's director of distribution operations, reckons that the group has cut its distribution costs by 25 per cent in real terms since 1992.

The savings have been achieved partly by taking a greater proportion of its business away from third-party distributors, and running it in-house.

While the bulk of the group's primary distribution – that is, from suppliers – is outsourced, more than 40 per cent of secondary distribution, to the actual stores, is handled by Sainsbury, and Mr Parle would like to see that level increase.

The rationale for having a mix between in-house and third-party used to be the flexibility it gave a company if there was a labour dispute. But now retailers use in-house operations to "bench-mark" what the costs should be for the rest of their distribution and to experiment with new ideas.

Improved computer technology has also helped reduce the distribution bill. Mr John Rowe, logistics director, says Sainsbury's invested £50m over the past three years on developing its own, customised computer systems – "Sabre" for its stores and "Scion" for the depots. "This has allowed us to be much more clever about the utilisation of our assets," he says.

Costs have also been cut by making better use of the group's vehicles. Instead of having particular fleets dedicated to individual routes, the vehicles now do more flexible journeys, collecting from suppliers, delivering to a depot and then picking up another load for a store, before returning to the supplier.

The effect of these "triangular" journeys, as Mr Rowe calls them, has been to cut the size of the in-house fleet by one third in the past four years.

The group's goal is to keep the annual rise in distribution costs below inflation each year. However, to the relief of its third-party distributors, Sainsbury is now focusing its attention on other parts of the distribution process to try and reduce costs.

"The squeeze has tended to come in the middle – now we are looking at the two ends; the stores and the suppliers," Mr Rowe says. He estimates that 50 per cent of the costs are incurred on "the last 100 yards from the back of the store to the front of the shelves".

The goal, therefore, is to try and minimise the work that needs to be done, such as checking, sorting and storage, at the actual supermarkets. That means more accurate stock selection at the warehouses using scanning technology and swifter response times for orders. It also means that the stores need to improve their forecasting about customer demands.

Over the past few years, the group has reduced from three days to two the time it takes between a supermarket ordering a perishable product, such as yoghurt or poultry, and that product being available to customers. It is now looking to halve that time.

On the supplier's side, Mr Parle says the Sainsbury group is trying to improve links with food manufacturers so that it is easier and cheaper to do business with the group. Sainsbury is also on the board of ECR, an industry group which brings together suppliers and retailers to investigate ways of reducing costs.

As it expands its operations, the group is increasingly keen on owning its own distribution sites, rather than leasing them. This gives the group greater control over location and Sainsbury faces a lower cost of funding than most third-party distributors. The new site which Sainsbury is looking to develop in Scotland will be built and owned by the group.

One important challenge ahead is the increasing demand for products from continental Europe which brings with it significant distribution costs. The group is gradually extending its logistics operations on to the continent.

Geoff Dyer

Gillette razor plant, London. 'EDI may speed up communications and take away some of the administrative chore. But the cost deters'

■ **Developments in Europe:** by Michael Terry

Revolutions progress

A number of factors are driving a shake-up in supply chain management

The fact that 132 out of 150 companies in a Europe-wide survey*, published earlier this year, have been carrying out significant overhauls of their supply chains, affirms the growing importance of logistics to the way European companies run themselves.

The survey, by management consultants KPMG and the Economist Intelligence Unit (EIU), says: "European supply chain management is undergoing two related revolutions.

"The first, a global phenomenon, is the growing interest in supply chain integration, both within and outside companies, as they apply new strategies and management techniques backed by the latest information technology.

"The second is concerned specifically with Europe: the trend towards greater geographic integration of supply chains in many industries, as manufacturers and retailers grasp the opportunities created by the removal of barriers to cross-border movement of goods within the expanding European single market."

US-owned medical supplies company Baxter International, which delivers direct to hospitals, has reduced its European warehouse network from 35 national facilities to five regional ones serving the UK and Ireland; Scandinavia; Benelux, France, Germany, Austria and Switzerland; Spain; and Italy.

Other forces driving European supply chain re-organisation are:

- Avoidance of expensive stocks of obsolete goods resulting from shrinking product life cycles;
- Post-merger integration: and
- Rationalisation of the European manufacturing base.

Re-organisation can be part of a much larger, strategic project. US-owned white goods manufacturer Whirlpool, which moved into Europe in response to the *global strategy* being adopted by the Swedish electrical goods manufacturer Electrolux, began by overhauling its manufacturing base before moving on to its information and logistics systems.

Despite a slower-than-expected reaction to the EC single market, more and more European companies are beginning to move away from managing their supply chains at just a national level. They are reducing the number of manufacturing sites and moving towards fewer warehouses and stocking points. And they are setting up multi-country distribution centres or, in some cases, pan-European and global ones.

Of the respondents to the KPMG/EIU survey, 37 per cent operate European distribution systems and 26 per cent operate national distribution systems. Fifty-six per cent said they previously operated national systems. The proportion of global systems has increased to 16 per cent and that of companies with a mix of national and regional systems has risen from 14 per cent to 21 per cent.

Reorganising a supply chain is as much to do with restructuring a company's operating processes as with re-designing its physical distribution networks.

Because of the continuing need to balance its European *supplies with demand*, US-owned computer equipment supplier, Hewlett-Packard, has radically reformed its demand forecasting and planning system. When its sales targets were set by just adding a percentage to the previous year's figures, projections by the sales force resulted in under-production. Now, the company estimates the size of the total market and bases its production on what it realistically thinks will be its market share.

Companies are also seeking to improve their order processing systems and times. At chemicals group Dupont de Nemours International, customers' orders used to pass through many hands and were subject to adjustments before they reached production.

As a result, customers seldom received exactly what they had requested.

Now, the orders come in direct to the factory by telephone, and the customer link has been merged with production scheduling to ensure that the company can schedule correctly.

Some companies are reorganising their supply chains so that production meets orders rather than replenishing inventories. But, because it is only possible where the order-to-delivery lead time is longer than the production cycle, producers of fast-moving consumer goods are ruled out.

A survey** of 1,000 European companies by management consultants A T Kearney, shows that companies in the automotive industry expect average order cycle times to improve by 38 per cent between 1992 and 1997 as a result of integration: a reduction to 18 days.

Companies in the pharmaceuticals industry anticipate that their average order cycle times will reduce to eight days by 1997: an improvement of 20 per cent.

The survey says that manufacturers of electrical machinery and appliances expect to deliver 96 per cent of their orders on time by 1997, compared with 90 per cent in 1992.

The order cycle time for all European companies taking part in the survey is expected to drop by an average 57 per cent to 10 days.

Logistics managers agree that for IT to support supply chain integration, the information systems must themselves be integrated. But they insist that IT should not be allowed to dominate logistics. It is the process changes themselves that should determine the changes in the information systems.

Two-thirds of the companies in the KPMG/EIU survey are integrating their IT systems so that different geographic and functional units can work together efficiently. Less than half of them envisaged greater centralisation.

The A T Kearney report says that IT is still being under-used as an aid to logistics integration, particularly in linking suppliers with their customers. It shows that in 1992, only 32 per cent of the respondents had computer-to-computer ordering with customers.

A further 33 per cent expect to have the link by installed by 1997.

In fact, it is only recently that supply chain integration has begun to focus on companies' upstream (suppliers) and downstream (customers) relationships.

Of the KPMG/EIU survey respondents that are re-organising their supply chains, most – 74 per cent – say they are setting up electronic data interchange (EDI) links with their customers to transmit purchase orders, shipping notices, invoices and remittance advices.

Retailers, especially the grocery trade, are the main promoters of EDI. But Mr David Harland, in charge of materials management at Gillette, US-owned manufacturer of razors and personal care products, considers the take-up to be slow.

He says: "Where cycles are very short, EDI is essential.

"For products like ours, it is hard to justify. It may speed up communications a bit and take away some of the administrative chore. But the cost deters."

Because of eastern Europe's growing importance, companies are establishing manufacturing or distribution facilities in the region. A survey*** by the Institute of Logistics and management consultants, PE Consulting, shows that two in five of the companies surveyed have facilities in the region while a further third expect to set them up in the next three years.

It says North American companies are the most advanced in developing into eastern Europe.

Far Eastern companies are expected to catch up during the next three years but European companies are the least likely to develop in this way.

Infrastructure in the region is poor and distances are enormous. Warehouses and materials handling equipment are generally not up to western European standards.

US-owned household and personal care products manufacturer Colgate-Palmolive is overhauling its eastern European logistics systems as part of a strategy to eventually supply central and eastern Europe from factories sited within the region.

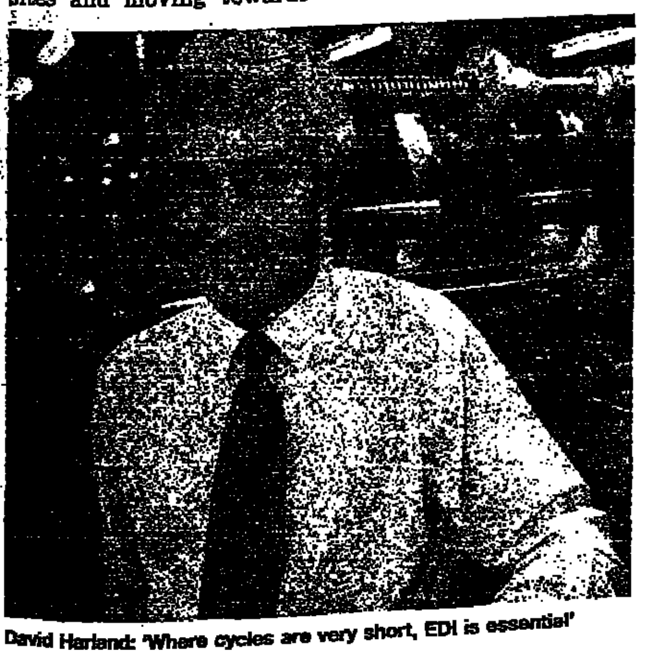
Mr Dave Nelson, Colgate-Palmolive's associate director of manufacturing strategy says: "Colgate-Palmolive is used to the sophisticated distribution systems which operate in western Europe.

"The system in eastern Europe has to be significantly improved if it is to properly meet the growth projected for the region."

**Supply chain management: Europe's new competitive battleground* is published by the Economist Intelligence Unit in co-operation with KPMG Management Consulting. Price: £295 (+VAT). Available from the Economist Intelligence Unit, tel: +44(0)171 830 1007.

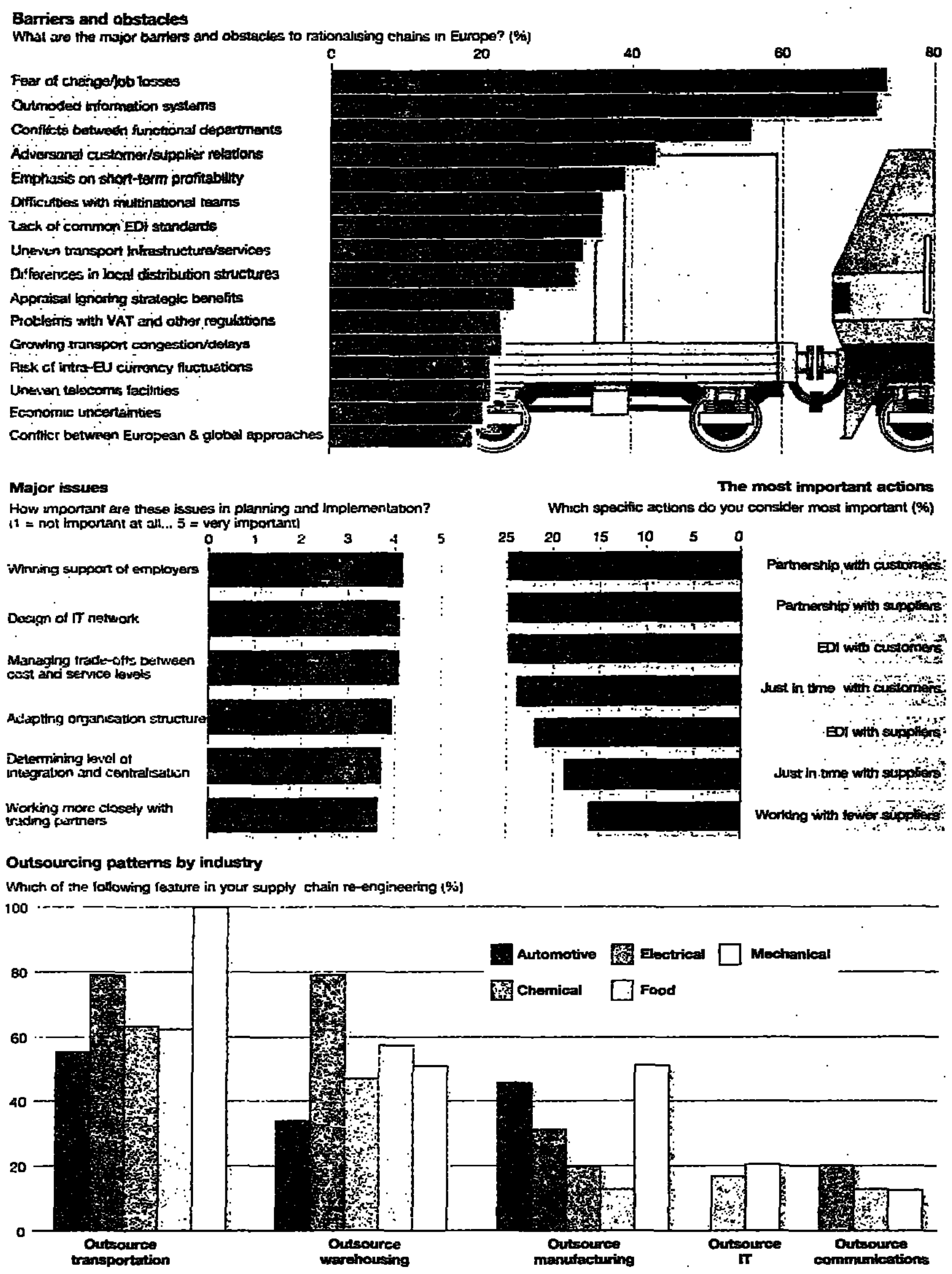
***Logistics Excellence in Europe* was prepared by international management consultants A T Kearney (tel: +44(0)171 468 8000) on behalf of the European Logistics Association.

****Logistics in Europe: the Vision and Reality* was prepared by PE Consulting in association with the European Logistics Association and the Institute of Logistics (tel: +44(0)1536 205 500).



David Harland: 'Where cycles are very short, EDI is essential'

Supply chain management



Source: Economic Intelligence Unit/KPMG "Supply Chain Management" (0171-830-1007)

■ **The role of rail:** by Charles Batchelor

European hitches

UK commercial pressures and European Commission activity may help

Many companies are keen to make use of rail to demonstrate their environmental credentials and to overcome the increasing delays involved in using the congested road network. In some instances, even when rail involves a longer journey, the certainty that a shipment will be there at the appointed time can make it an attractive option.

But significant growth remains constrained by the inflexibility of railway operations throughout Europe. The railway industry needs to move quickly to capitalise on the expectations awakened by the shift to privatisation or the opportunity may be lost.

Governments are keen to encourage a shift to rail, to meet their targets for cutting pollution and to reduce congestion on their roads. But it will be a difficult task to reverse the long-term decline of rail, down to just 7 per cent of total freight transport in the UK from 42 per cent in the 1950s.

In the European Union as a whole, rail's share of the freight market has fallen from 32 per cent in 1970 to 16 per cent.

Britain is not the first European country to dismantle its state-owned railway company but it has carried the process the furthest. Britain is implementing many of the changes which the European Commission hopes to encourage throughout continental Europe.

The main problem for British companies seeking to make domestic shipments is the relatively short distances involved. High handling charges at each end of the rail section make the use of rail difficult to justify. Putting the railways into the private sector has meant that loss-making freight shipments can no longer be cross-subsidised by other activities. Every freight journey must cover its costs and provide a return on the investment.

English Welsh & Scottish Railway, BR's former Trainload Freight division which is now owned by Wisconsin Central Transportation of the US, is attempting to negotiate more favourable rates with Railtrack, the owner of rail infrastructure. EWS also wants Railtrack to provide a more transparent method of calculating charges. At present shipments must be individually negotiated, a process which can take several months.

The problem of balancing the books on freight shipments has been exacerbated by the difficulty in obtaining the government subsidies which are available. An investigation by the National Audit Office into the freight facilities grant, which funds freight terminal equipment, found that the Department of Transport had spent only £32m out of the total of £70m available between 1985 and 1996.

Few freight operators have been able to provide sufficient proof that the projected volumes of traffic will materialise so even mildly speculative attempts to create new business have been turned down for funding. The position is about to change, however. The transport department promised last month to be more sympathetic in its treatment of grant applications while the subsidy rate for shipments transferred from motorways was increased from 5p to 20p per mile.

The modernisation of the UK freight market has also been held up by slow progress in privatising BR's freight businesses. This was due largely to the scale of their losses and the need to restructure some of their operations. But the sale is now largely complete and the only remaining business to be sold is Railfreight Distribution, which moves containers through the Channel tunnel.

Channel tunnel shipments have been growing steadily, although not at the rate which was originally forecast. They have been hampered in part by the thoroughness of the security procedures which the British and French governments have insisted upon, although these are being eased.

They have also been hit by the ferocity of the price war between Eurotunnel, operator of the Channel tunnel, and the ferries, which has seen cross-Channel tariffs plummet. It can therefore be far cheaper for a shipper to send consignments by road to the tunnel terminal, through the tunnel by freight shuttle, and then on by road, rather than using rail for the entire length of the journey.

Egger, a German manufacturer of fibre board and chipboard, is to truck 40,000 tonnes of board a year from Germany to the UK via the tunnel shuttle service because it is cheaper than door-to-door rail movements. The relative decline of rail transport – for both freight and passengers – has spurred the European Commission into action. Mr Neil Kinnock, the European transport commissioner, published a white paper entitled *A Strategy for Revitalising the Community's Railways in July*.

Despite growing unease about the damaging impact of road transport, rail's market share has continued to decline, the paper said.

"The main reason is dissatisfaction with the price and quality of rail transport. Rail is not felt to respond to market changes or customers' needs, as other modes do. In fact the railways have been largely insulated from market forces."

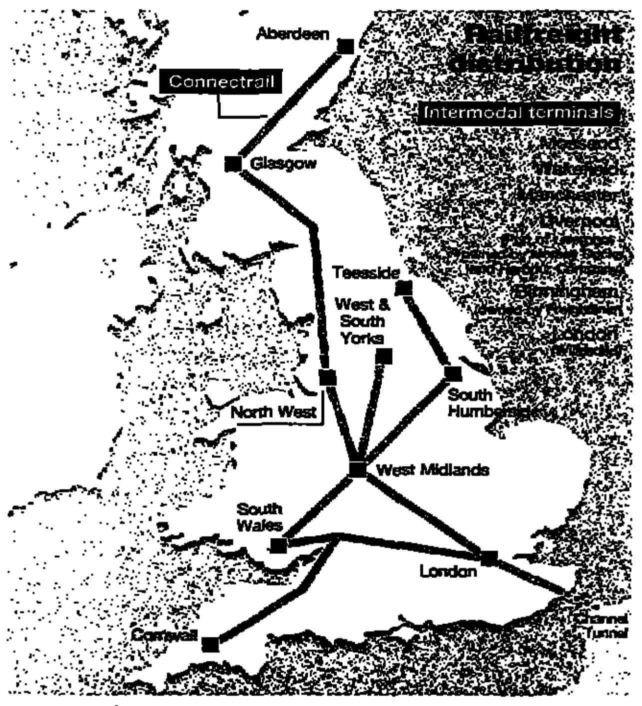
Governments were partly responsible for this state of affairs because they interfered in management decisions and imposed obligations without compensating fully for the costs involved, it said. They failed to set clear financial objectives but subsidised losses or let debts pile up.

"The railways were spared difficult decisions but this ill prepared them for their long-term future," the paper's authors wrote. "A new kind of railway is needed. It should be first and foremost a business, with management independent and free to exploit commercial opportunities but answerable for failure." On the freight front, the Commission wants the creation of a network of "freeways" spanning the continent. At present the average freight train travels at just nine miles an hour and on a typical journey it is likely to idle in sidings for an entire afternoon waiting for border checks. It is likely to lose at least half an hour at each frontier, changing crews.

The freeways would provide open access to any carrier approved under a licensing system and would give equal priority to freight and passenger trains. The paperwork for making cross-border journeys would also be simplified. These measures should raise average speeds to just under 40mph and enable rail to compete with road.

Commercial pressures in the UK and Commission activity on the European stage may both bring about a more flexible, more financially viable freight railway. But shippers are looking for speedy action and there is a railway culture built up over decades to be overcome.

The price war between Eurotunnel and the ferries has hit shipments



CASE STUDY Rover Group and Exel Logistics

Double-deck solution

Three years ago, Rover Group, the UK carmaker owned by BMW of Germany, decided to raise production targets for cars made in its assembly plant at Longbridge, south-west of Birmingham.

To achieve these targets, Rover needed to ship an increased volume of car body panels – plates of steel that make up the outside of the car – from its pressings factory in Swindon to the Longbridge site, a distance of 130km.

At that time, the group was transporting about 200 train wagons full of these car body panels every week to Longbridge, on a rail link between the two sites. By 1998, the group wanted to be able to send the equivalent of 700 to 800 wagons a week. On current rail capacity, however, it would only be able to move about 440 weekly wagonloads.

In seeking a solution to this logistics problem, Rover turned to Exel Logistics, a company which has worked with the car manufacturer on a number of projects.

Exel conducted a cost-benefit analysis, considering the alternative of turning to road transport.

"The economics of rail freight generally do not fit for most companies," said Mr Lee Pomlett, managing director of Excel's automotive division. "But in this particular example you have high volumes with a reasonable level of predictability between two points that are rail linked already."

Mr John Johnson, distribution manager for Rover Group in Swindon, said: "The economics of railway freight are very good. To move an equivalent load by road is in the tens of per cent higher than moving it by rail."

Increasing the volumes moved by rail still posed a problem because the group needed to be able to do it without adding more train journeys or wagons. But because the wagons it was using were virtually filled to capacity, this meant, quite simply, that the group was running out of room.

"We were running out of deck space," says Mr Johnson. "So we decided to create a larger freight wagon."

Making this larger wagon, however, was not simply a matter of widening or deepening the freight cars, because UK rail regulations constrained the dimensions of the wagons.

Exel brought in a rail logistician who calculated the extra volume capacity needed per "move" – or train journey – between Swindon and Longbridge and came up with the specifications for what is effectively a double-decker rail wagon.

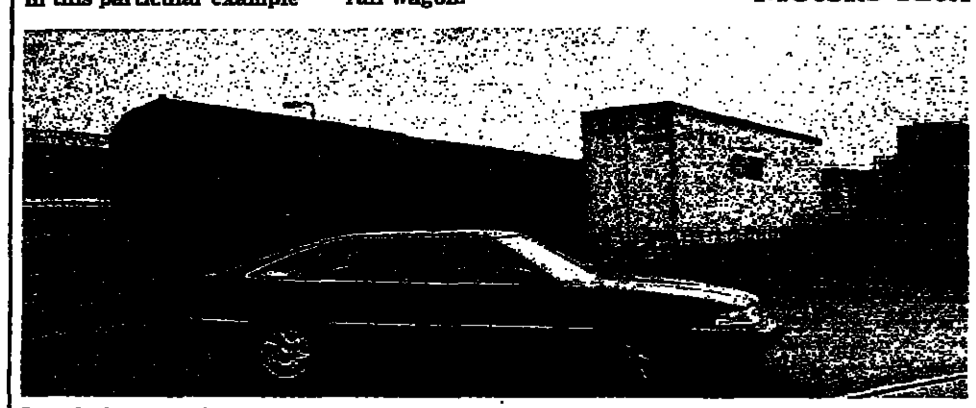
Technicians identified space between the wheels of the wagons which, in conventional freight wagons, constituted wasted space. After a worldwide search for a manufacturer, Exel recommended Rautaruukki, the Finnish state-owned steel company, which designed and built a new wagon.

The wagon has two floors, one of which can be raised after it is loaded, creating further space beneath the first floor. The roofs slide to make loading easier, and the wagons are compatible with British and European track gauges, and also conform to regulations for the Channel Tunnel.

This flexibility was important, said Mr Johnson, so that the group could pursue a variety of distribution options in future years. To operate a rail freight wagon in the Channel Tunnel, the wagon's electrical cables must be coated in a specified non-toxic cable cover so that the cables would not burst into flame in the Tunnel.

"Exel discovered this requirement during the design process and we had to make some radical cost changes during the project," said Mr Johnson. "But if we had not noticed this requirement our wagons would be land-locked in the UK."

Motoko Rich



Rover's double-decker rail freight wagons are compatible with British and European track gauges

■ **Warehousing:** by Phillip Hastings

Efficiency is difficult to gauge

Before warehouse errors can be reduced, the mistakes have to be identified

Efficient management of warehousing activities is vital to most logistics operations. Accuracy in picking and order fulfilment, for example, are now regarded as crucial to good customer service.

Internally, too, companies recognise they need to closely monitor and control the whole process of goods reception, storage, picking and dispatch to achieve maximum cost efficiency.

One of the big problems for warehouse operators, though, is just how to produce consistent and meaningful figures which will help them accurately gauge the efficiency of their performance.

Warehouse managers admit that, all too often, the measurement of performance and quality of service produces figures which can be very misleading. Sometimes, they add, that confusion can apply as much to the warehouse management undertaking the measurement as it does to customers and other outsiders.

The extent of warehousing industry concern over such problems was highlighted when the UK National Materials Handling Centre (NMHC), a division of Cranfield Logistics, surveyed possibilities for benchmarking product picking accuracy.

In that context, it contacted a range of distribution organisations to investigate the extent to which they monitored warehouse error rates and how they tried to obtain usable figures.

"The response to the survey was unusually good – well in excess of 40 per cent," commented Mr Dave Mellon, senior consultant with Cranfield Logistics.

"Of the organisations which responded to the survey, 96 per cent expressed an interest in an open benchmarking programme involving visits and exchange of data."

The NMHC survey found that the respondents using accuracy aids showed little correlation with an overall reduction in error rate or improvement in accuracy.

"This may well be due to the fact that generally, these companies were more exact in their monitoring techniques and perhaps were reflecting a more true picture of events," added Mr Mellon.

Supporting evidence for that last point emerged at a conference on warehouse accuracy organised earlier this year by the NMHC. Mr Michael Galley, quality and regulations manager for Vauxhall Aftersales, told delegates that a change in the system for monitoring picking performance at the automotive industry organisation's warehouse in Luton, Bedfordshire, had produced a "disconcerting" result.

"Instead of showing an improvement, our recorded error rate appeared to rise," he said. However, he continued, that initial impression had proved to be slightly misleading. "In fact, rather than being a manifestation of a worsening trend, this increase actually represented the formal recognition of events which we had hitherto been somewhat ignorant of, or which we had tended to overlook. The errors had been there; we merely had not been acknowledging them formally," he explained.

Such problems are of increasing concern to all logistics managers. If carefully collated warehouse performance figures cannot be trusted, they say, how are they going to satisfy the demands both of their in-house peers and external customers?

According to warehousing industry experts, the problem is deep-rooted. Before warehouse errors can be reduced, they say, the mistakes first have to be identified and measured.

Both those exercises, it is suggested, often appear to be more of an art than a science, with the final performance figures depending very much on the criteria used to produce them.

Reinforcing that point, Mr Mellon referred to the example of a company which reported that it had an internal target for first time successful completion of orders of 98.2 per cent, while the performance against commitment figure was 92.3 per cent. However, when that performance was measured against what a customer actually required, the figure was only 45.5 per cent.

A similar point was made by the distribution development director for a leading stationery wholesaler.

He said that when measuring the quality of warehouse picking performance, there was more than one way to express the same information. To illustrate his argument, he cited the example of a depot which picked 20,000 units a day. Those units could be found on 5,000 pick lines with a picking line typically comprising four boxes. The pick lines were generated from 1,000 orders and those 1,000 orders were delivered on 22 vehicles.

"Let us assume that 50 order lines fall under the definition of quality failure – a mixture of stock discrepancies and picking errors. We can express our failure in terms of lines picked – in this case, 1 per cent," he said.

"If we express this in terms of orders sent, the worst case is that the 50 lines could have been on 50 separate orders. In this case, the failure rate would be 5 per cent. If you go to the next step of total consignments delivered with the 22 vehicles, you may find it described as a 100 per cent failure. But if the 50 order lines represented 50 units, the rate would be as low as 0.25 per cent."

Just to further confuse the issue, he pointed out that statistics could also vary according to how a company actually defined "failure".

Some companies, he said, only defined picking errors as failures. They left out cases where there was no stock on the shelf, presumably because in their view, warehouse performance was being measured, not systems.

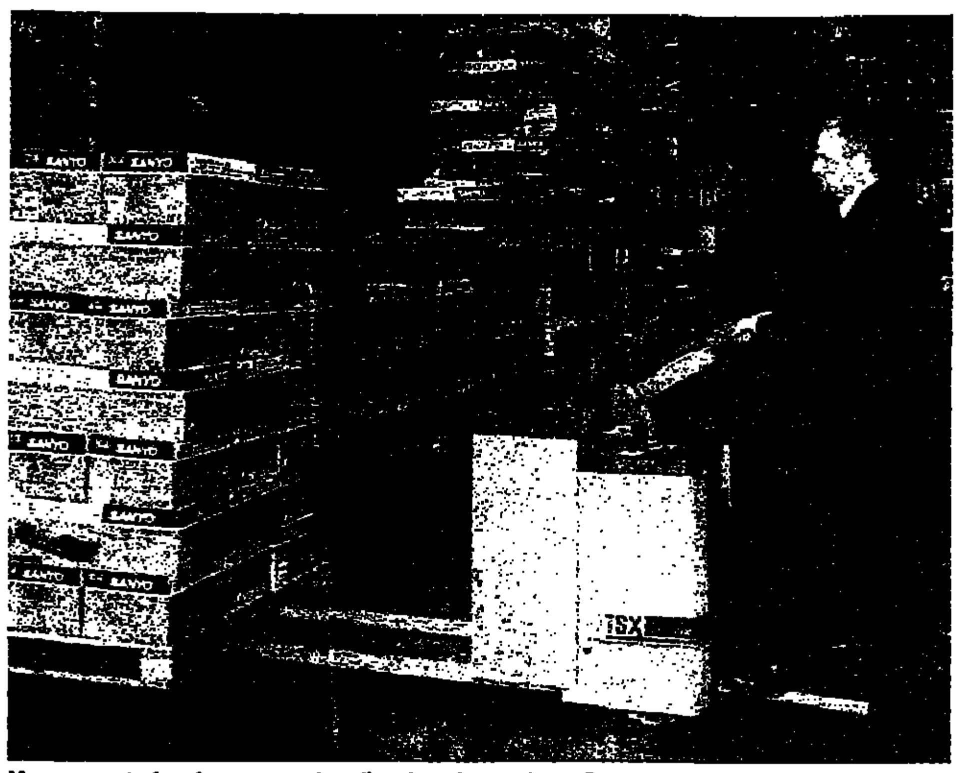
Coupled with the requirement for improvements in physical warehouse operations such as picking is an ever-increasing demand for faster and more detailed information flows.

Dr Richard Ballard, a director with consultancy company The Logistics Business, claimed that one of the fundamental principles of materials management was that material flow and information flow must go hand in hand.

"Not only must a warehouse manager know where an item of stock is, but he or she must also know everything about that item as it applies at a given point in time and place," he said.

The monitoring and measurement of inventory, continued Dr Ballard, was not simply a question of checking stock. It was about knowing, at all times, everything which needed to be known about the stock to ensure the effective management of the warehouse. Coupled with that was the reliable feedback of data for management of the business, including inventory control, sales order processing and invoicing.

The best warehouse management systems, he claimed, monitored the process rather than just the stock. "This means that monitoring and measurement take place after each action has occurred, thus highlighting errors immediately. If errors are eliminated, the idea of a periodic stock check becomes superfluous."

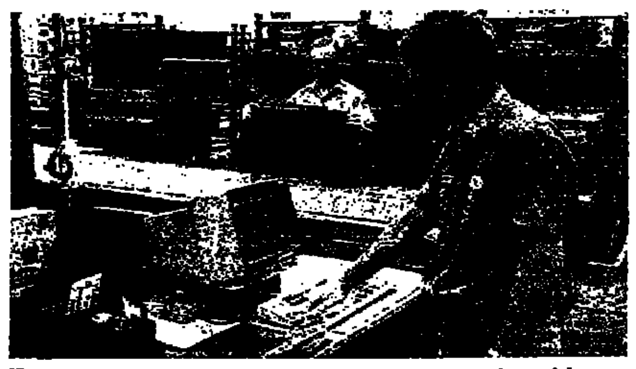


Measurement of performance and quality of service produces figures which can be misleading

■ **Electronic Data Interchange:** by George Black

Critical information

Companies are starting to understand the potential of computers



The barcode system of tracking products is constantly evolving

Information Technology is starting to transform the business of logistics, giving managers the chance to operate far more efficiently. And perhaps most significant of all the technological advances is the increasing adoption of electronic commerce, or electronic data interchange (EDI) by distribution companies.

Electronic commerce has been spreading steadily for more than a decade and is beginning to influence the business of distribution radically.

Timely delivery of goods is ever more crucial in a world in which their shelf-life is shortening. The shelf-life of electronics goods has reduced from years to months: that of fashion goods and toys can be just a few weeks.

If part of that brief shelf-life is wasted because goods are stuck at an airport or a distribution centre, then much of the cost of production may be thrown away. To make sure this does not happen requires better information systems.

"Logistics managers are realising that transport of goods is only part of the problem; it is information about the process which is the critical element," says Ms Theresia Reff, a manager for Mercantile, the logistics arm of Danish shipping company A.P. Moller.

Until recently, many large manufacturing companies neglected the development of freight handling systems. Some are still operating fairly primitive clerical systems and are often hampered by poor communications between departments. But now companies are starting to understand more clearly the potential of computers to support logistics, and are developing new systems in-house or in some cases outsourcing the whole operation to experts.

Their objective is to be able to track goods all the way from the place where they are produced to the store where they are sold. In many cases, they are looking for logistics partners who understand their businesses and can help them operate information systems rather than just carry out transportation.

"The big advantage of EDI in logistics is that being able to track consignments allows you to schedule and plan better," says Dr Roger Till, chief executive of the Electronic Commerce Association.

For example, courier company Federal Express last year opened up its systems to allow customers access via the Internet to check for themselves where their packages are.

Mr Antony Francis, FedEx's vice-president of logistics and electronic commerce, says US customers can now prepare their own shipping documents and order a courier online. Before long, it will be possible for customers to be notified in advance of when the delivery will arrive and what it will contain.

Another sign of the higher priority which logistics systems are taking is that logistics managers have become proactive in establishing EDI systems, rather than leaving it to IT managers, as was the situation a couple of years ago.

Mr Mark McDonnell, marketing director for GE Information Services, says logistics managers in retailing are particularly interested in the application of EDI to co-managed inventory systems, by which suppliers share responsibility for keeping store shelves stacked.

In choosing their suppliers, retailers are looking much less at the price of their goods and much more at their ability to deliver reliably, he notes.

Another advance is the gradual integration of systems which start to deliver advantages in cost-saving, speed of communication and accuracy of information.

"If you send a message electronically and it has to be re-keyed at the other end, you don't gain anything," says Mr Philip Bird, technical director of software supplier Atlas Products International. "But if it is handled electronically throughout, then the benefits start to come through."

In the past couple of years many more types of message have been adopted for logistics. Most companies began with either electronic orders or invoices, but now many have moved on to order and delivery acknowledgments.

The Edifact standard (EDI for Administration, Commerce and Trade), backed by the United Nations, has become broadly accepted worldwide and will be more so after the Ansi (American National Standards Institute) comes in line with it next year. The growth in the number of documents contained within Edifact is starting to bring greater control to supply chain management. And the benefits of electronic commerce start small and grow as integration proceeds, says Mr Bird:

"It has a knock-on effect, so that if freight forwarders get better information they can plan routes and vehicle usage better and cut down the consumption of tyres and fuel. Manufacturers who get better information about goods returned from customers can take earlier action to put right problems in production."

The barcode system which forms another key element in electronic trading is constantly evolving. Data about the movement of goods is being incorporated within EDI systems by the adoption of a new barcode standard called EAN128, created under the European Article Numbering system.

EAN128 has made it possible to encode much more information on tags attached to pallets. The tags can be read by scanners at any point along the supply chain.

"Now we can track pallets more effectively, so we can plan in advance where the goods will go when we receive them," says Mr Ken Stephens, head of logistics development for Nestlé UK. The food and drinks manufacturer was one of the first to adopt EAN128.

However, there are still some experts who remain sceptical about the benefits of these new methods of supply chain management and about the willingness of companies to adopt them.

Dr Derek Wright, business development director at Cranfield School of Management's logistics centre, says there is still a lot more talk about supply chain management than action to achieve it. This is partly because managers continue to defend their traditional spheres of authority and partly because they are nervous about working too closely with business partners, he says.

"They understand all the benefits of EDI, but the reality is there must be some losers as well as winners. There is bound to be a risk involved in getting too close to one of your customers."

6 LOGISTICS

■ **Air cargo:** by Phillip Hastings

Shake-up looms for 'fire brigade'

Recent developments reflect a growing demand for integration

Traditionally, as much as 85-90 per cent of standard international air cargo business has been handled by freight forwarders acting as intermediaries for shippers and airlines.

The general pattern of activity has involved shippers and consignees primarily working with forwarders who in turn have dealt with the airlines. And the overall effect of such operations, says Mr Boubby Grin, director of cargo development for Dutch airline KLM, is a segmented supply chain.

"On average, there are 11 entities – customs, truckers, handling companies, forwarders, etc – in the air cargo chain. And the interfaces between these are still being organised like an old Chinese fire brigade, with a bucket of water being passed along from one pair of hands to another," says Mr Grin.

However, as international logistics systems become ever more sophisticated, all the parties involved in air cargo operations are now having to redefine their respective roles.

Airlines and forwarders, for example, are increasingly seeking to develop partnership-type working relationships in an attempt to provide shippers with the higher service levels they are demanding.

"All relationships in the air cargo chain are changing. They are generally becoming less adversarial with more emphasis on partnerships," confirmed Mr Mike Rawlins, manager of sales and marketing, Europe, Middle East and Africa, for global forwarder Emery Worldwide.

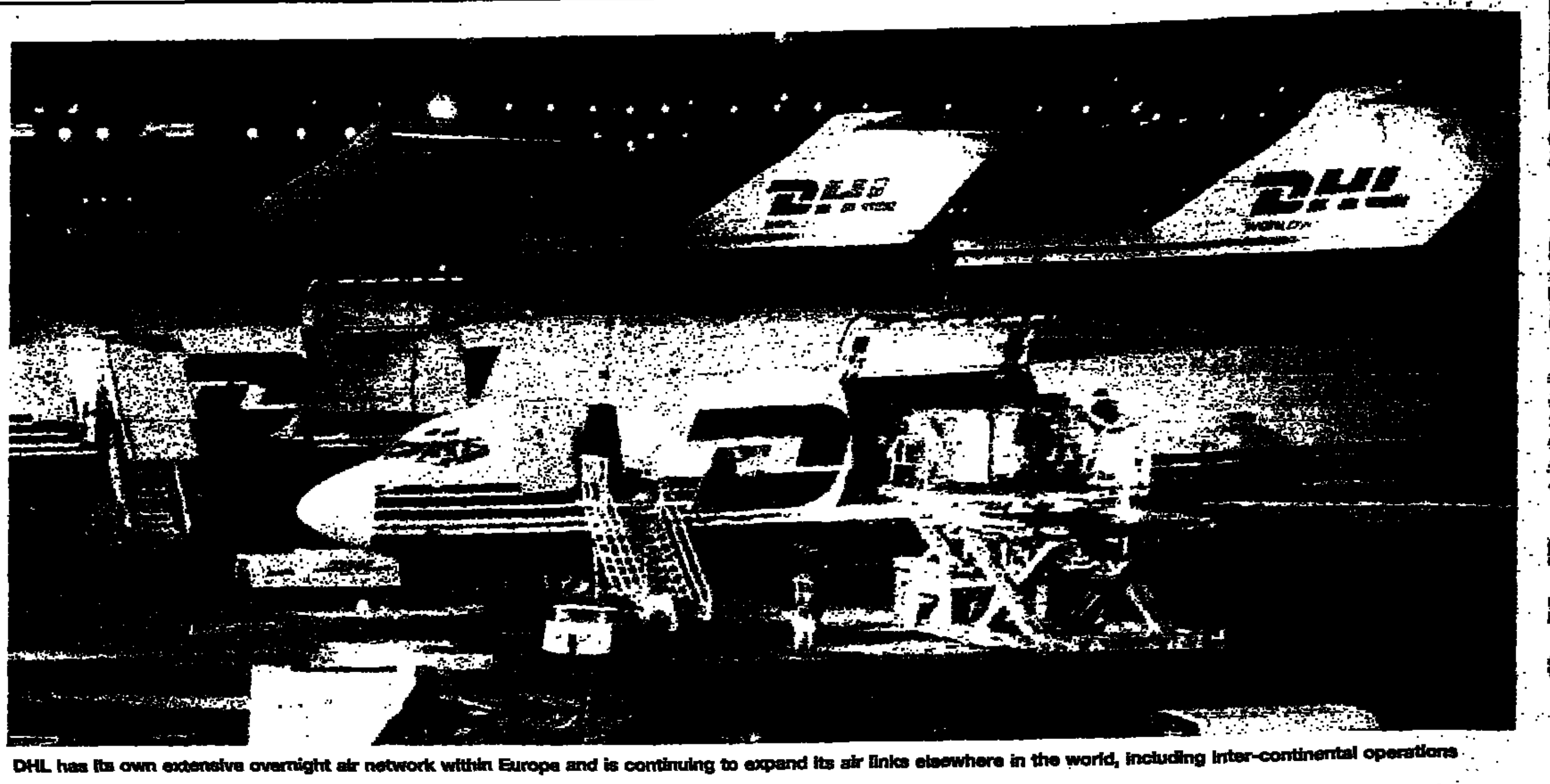
That trend was further highlighted in September when the Geneva-based International Air Transport Association (Iata) organised a two-day "Cargo Partnership Symposium" in Paris for senior executives from leading cargo-carrying airlines and forwarders.

That event was inspired partly by growing fears in both industries that they are rapidly losing business to global express companies – or integrators as they are often called – such as DHL and United Parcel Service (UPS).

The other motivation, said Mr Colin Mills, director cargo services for Iata, is a growing awareness among airlines and forwarders that while the air cargo industry and technology has changed substantially over the past few years, the way they do business together has not.

"The tools are now becoming available to allow such change and shippers are saying that they want better service," he added.

Certain airlines are also looking to step up their direct contact with cargo shippers. "If a customer asks us to deal with him directly, we will do that," said Mr Grin. However, KLM stresses that it is also looking to develop strong partnerships with interested forwarders.



DHL has its own extensive overnight air network within Europe and is continuing to expand its air links elsewhere in the world, including inter-continental operations

Recently, for example, it signed a business code of conduct with UK-based forwarder MSAS Cargo International. "Transactional transparency and a commitment to open and honest communications are implicit in this understanding, which also formalises a joint undertaking to uphold specific measurable criteria," stated the two companies.

Such developments reflect a growing demand from the air cargo industry's multinational customers, in particular, for integrated distribution systems and shorter response times. Predictably, leading air freight forwarders – or logistics service companies as they now prefer to be called – claim they are well placed to develop a leading role in such supply chain management.

Emery, for example, has established a "Global Logistics" division. Meanwhile, US-based rival AEI now prefers to use those initials rather than its former full name of Air Express International to emphasise that it is now much more than just an air freight forwarder.

Mr Guenter Rohrmann, AEI president and chief executive officer, said examples of the sort of logistics capability his company could now offer included a purchase order management service which enables customers to off-load many administrative tasks associated with the procurement process.

"Our global infrastructure can check on supplier performance at many levels, such as validation of commodities shipped on time, in the correct quantities and material to specification. Services also include proper labelling and the transmission of EDI shipping notices," he added.

Examples of logistics activity quoted by Emery include a "configuration" facility it runs in Frankfurt, Germany, for US-based data storage equipment manufacturer Iomega. Services provided there by Emery include receiving orders, packaging them to specification and co-ordinating deliveries to customers and vendors in many locations throughout Europe.

However, forwarders are facing growing competition for international air freight and general logistics management business.

Prominent among the sources of that competition are leading global air express service operators, notably DHL, UPS, TNT Express Worldwide and Federal Express. The first three have their own extensive overnight air networks within Europe and all four are continuing to expand their air links elsewhere in the world, including inter-continental operations.

Again, the emphasis is increasingly on providing air services as part of a broader supply chain management package.

Certain airlines, too, are now beginning to look at ways of stepping up their involvement in logistics management. Probably the most prominent in that context is KLM which recently revealed it is thinking about splitting its cargo organisation in two to better cater for current trends in global logistics activities.

"Larger shippers will – and already do – actively support carriers and forwarders who want to become more a logistics service supplier than simply a flyer or trucker or operator," commented Mr Grin.

The end result of such growing competition as far as buyers of air cargo services are concerned is an increasing range of service providers and product options.

In that context, a number of developments are helping make it easier for buyers to assess the relative merits of competing services by providing them with more information.

For example, air cargo industry customers have long complained about the problems which arise when shipments are not flown as booked and the difficulty in getting figures which enable them to compare the performance of individual service providers.

In response to such criticism, this year has seen a sudden pronounced move by the air cargo industry to start publishing regular performance figures.

MSAS, for example, is now publishing quarterly reports.

Figures for the first quarter of this year showed that the forwarder achieved a 90.6 per cent flown-as-booked record. That performance improved to 92 per cent in the second quarter and is expected to reach about 92.7 per cent for the third quarter.

"The improvement came from both ourselves and the airlines we use," said a spokesman for MSAS.

Shippers, though, argue that the figures which really

> **The main technological emphasis is very much on management information**

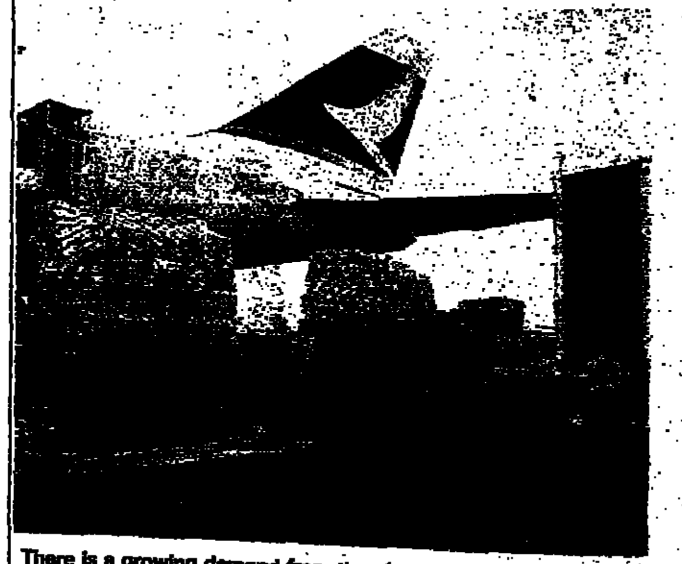
interest them are those for actual delivery times. "What matters most to an exporter is that his consignment arrives as booked," emphasised the British Shippers Council.

In a further bid to prove their service integrity, forwarders, express companies and airlines are also increasingly seeking to secure international quality standards accreditation, notably ISO (International Standards Organisation) 9002.

"An ISO certification assures the customer that the seller can furnish an acceptable product or service according to internationally-agreed standards," commented Mr Mike Saliba, manager UK and Ireland for Middle East-based express, air cargo and distribution services company Aramex.

As far as technological developments in the international air freight industry are concerned, the main emphasis is currently very much on communications and management information.

Earlier this year, for example, Syntegra, the systems integration division of telecommunications giant BT, launched an Internet-based service called CargoConnect which is designed to enable airline customers to get real-time shipment information from all participating carriers.



There is a growing demand from the air cargo industry's multinational customers, in particular, for integrated distribution systems and shorter response times